Trinity Health

Consolidated Financial Statements for the Years Ended June 30, 2012 and 2011, Consolidated Supplemental Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2012 and Independent Auditors' Reports

TRINITY HEALTH

TABLE OF CONTENTS

Deloitte & Touche LLP
200 Renaissance Center
Suite 3900
Detroit, MI 48243-1300
USA

Tel: +1 313 396 3000
Fax: +1 313 396 3618
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health
Livonia, Michigan

We have audited the accompanying consolidated balance sheets of Trinity Health and subsidiaries (the "Corporation") as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Saint Joseph's Tower (the "Tower"), a wholly owned subsidiary of Trinity Continuing Care Services, a wholly owned subsidiary of the Corporation, which statements reflect total assets of $2,411,705 and $2,534,288 as of June 30, 2012 and 2011, respectively, and total revenue of $876,882 and $868,085 for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Tower, is based solely on the report of other auditors. The Corporation's consolidated financial statements include the operations for the three-month period ended June 30, 2012, of Mercy Health System of Chicago and Subsidiaries (MHSC), a wholly owned subsidiary of the Corporation, which reflected total assets of $336.6 million as of June 30, 2012 and total revenue of $68.3 million for the three-month period ended June 30, 2012. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MHSC, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2012 and 2011, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements of the Corporation, taken as a whole. The accompanying 2012 Consolidated Supplemental Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of the Corporation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and (as to $4,143,113 included for the Tower) the report of the other auditors, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 26, 2012, except for Note 13, as to which the date is March 7, 2013

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 AND 2011
(In Thousands)

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 708,889	$ 536,269
Investments	1,883,325	1,681,699
Security lending collateral	130,702	149,641
Assets limited or restricted as to use, current portion	27,420	8,233
Patient accounts receivable, net of allowance for doubtful accounts of $217.5 million and $177.6 million in 2012 and 2011, respectively	965,573	722,465
Estimated receivables from third-party payors	140,614	92,829
Other receivables	140,718	117,740
Inventories	133,634	109,136
Assets held for sale	-	185,437
Prepaid expenses and other current assets	159,674	97,005
Total current assets	4,290,549	3,700,454
ASSETS LIMITED OR RESTRICTED AS TO USE, NONCURRENT PORTION:		
Held by trustees under bond indenture agreements	51,114	6,627
Self-insurance, benefit plans and other	419,685	207,236
By Board	2,153,574	2,309,567
By donors	129,628	100,203
Total assets limited or restricted as to use, noncurrent portion	2,754,001	2,623,633
PROPERTY AND EQUIPMENT, NET	4,221,827	3,374,103
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	126,678	104,702
GOODWILL	107,704	108,297
INTANGIBLE ASSETS, net of accumulated amortization of $17.1 million and $14.2 million in 2012 and 2011, respectively	64,475	22,053
OTHER ASSETS	110,681	96,415
TOTAL ASSETS	$ 11,675,915	$ 10,029,657

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES:		
Commercial paper	$ 134,989	$ 99,978
Short-term borrowings	892,865	1,121,270
Current portion of long-term debt	32,362	29,514
Accounts payable	351,931	281,213
Accrued expenses	259,159	132,417
Salaries, wages and related liabilities	421,448	356,968
Payable under security lending agreements	130,702	149,641
Liabilities held for sale	-	28,918
Estimated payables to third-party payors	269,377	166,910
Total current liabilities	2,492,833	2,366,829
LONG-TERM DEBT, NET OF CURRENT PORTION	2,302,236	1,530,902
SELF-INSURANCE RESERVES	513,602	282,175
ACCRUED PENSION AND RETIREE HEALTH COSTS	1,057,566	346,942
OTHER LONG-TERM LIABILITIES	440,668	288,497
Total liabilities	6,806,905	4,815,345
NET ASSETS:		
Unrestricted net assets	4,707,202	5,007,518
Noncontrolling ownership interest in subsidiaries	18,160	97,288
Total unrestricted net assets	4,725,362	5,104,806
Temporarily restricted net assets	102,978	73,287
Noncontrolling ownership interest in subsidiaries	-	1,628
Total temporarily restricted net assets	102,978	74,915
Permanently restricted net assets	40,670	34,462
Noncontrolling ownership interest in subsidiaries	-	129
Total permanently restricted net assets	40,670	34,591
Total net assets	4,869,010	5,214,312
TOTAL LIABILITIES AND NET ASSETS	$ 11,675,915	$ 10,029,657

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011
(In Thousands)

	2012	2011
UNRESTRICTED REVENUE:		
Net patient service revenue	$ 7,849,161	$ 6,495,919
Capitation and premium revenue	422,493	378,568
Net assets released from restrictions	12,120	12,357
Other revenue	617,136	464,505
Total unrestricted revenue	8,900,910	7,351,349
EXPENSES:		
Salaries and wages	3,549,999	2,850,939
Employee benefits	831,816	729,746
Contract labor	82,903	56,471
Total labor expenses	4,464,718	3,637,156
Supplies	1,430,933	1,190,255
Purchased services	775,408	683,560
Depreciation and amortization	464,750	405,631
Occupancy	348,864	307,722
Provision for bad debts	431,457	323,275
Medical claims and capitation purchased services	210,245	198,355
Interest	102,781	84,071
Other	401,745	296,565
Total expenses	8,630,901	7,126,590
OPERATING INCOME	270,009	224,759
NONOPERATING ITEMS:		
Investment (loss) income	(19,159)	483,550
Change in market value and cash payments of interest rate swaps	(114,468)	13,554
Loss from early extinguishment of debt	(13,458)	(10,185)
Gain on bargain purchase and inherent contribution	216,796	-
Other, including income taxes	27,333	(28,765)
Total nonoperating items	97,044	458,154
EXCESS OF REVENUE OVER EXPENSES	367,053	682,913
Less excess of revenue over expenses attributable to noncontrolling interest	8,312	6,580
EXCESS OF REVENUE OVER EXPENSES, NET OF NONCONTROLLING INTEREST	$ 358,741	$ 676,333

The accompanying notes are an integral part of the consolidated financial statements.

	Controlling Interest	Noncontrolling Interest	Total
UNRESTRICTED NET ASSETS:			
Excess of revenue over expenses	$ 358,741	$ 8,312	$ 367,053
Net assets released from restrictions for capital acquisitions	20,496	-	20,496
Net change in retirement plan related items	(673,340)	-	(673,340)
Other	6,090	(6,287)	(197)
(Decrease) increase in unrestricted net assets before discontinued operations	(288,013)	2,025	(285,988)
Discontinued operations - Battle Creek Health System (BCHS)			
Net change in retirement plan related items	21,678	-	21,678
Loss on transfer of shares	(28,534)	-	(28,534)
Loss from operations	(5,447)	-	(5,447)
Decrease due to transfer	-	(81,153)	(81,153)
Decrease in unrestricted net assets	(300,316)	(79,128)	(379,444)
TEMPORARILY RESTRICTED NET ASSETS:			
Contributions	38,022	-	38,022
Net assets released from restrictions	(32,616)	-	(32,616)
Decrease due to transfer of shares of BCHS	(1,628)	(1,628)	(3,256)
Acquisition of Loyola University Health System (LUHS)	20,362	-	20,362
Acquisition of Mercy Health System of Chicago (MHSC)	4,016	-	4,016
Other	1,535	-	1,535
Increase (decrease) in temporarily restricted net assets	29,691	(1,628)	28,063
PERMANENTLY RESTRICTED NET ASSETS:			
Contributions for endowment funds	636	-	636
Net investment loss	(421)	-	(421)
Decrease due to transfer of shares of BCHS	(129)	(129)	(258)
Acquisition of LUHS	6,671	-	6,671
Other	(549)	-	(549)
Increase (decrease) in permanently restricted net assets	6,208	(129)	6,079
DECREASE IN NET ASSETS	(264,417)	(80,885)	(345,302)
NET ASSETS, BEGINNING OF YEAR	5,115,267	99,045	5,214,312
NET ASSETS, END OF YEAR	$ 4,850,850	$ 18,160	$ 4,869,010

(Continued)

[This page is left intentionally blank.]

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011
(In Thousands)

	Controlling Interest	Noncontrolling Interest	Total
UNRESTRICTED NET ASSETS:			
Excess of revenue over expenses	$ 676,333	$ 6,580	$ 682,913
Net assets released from restrictions for capital acquisitions	8,914	-	8,914
Net change in retirement plan related items	209,467	2,594	212,061
Cumulative effect of change in accounting principle	(7,823)	(32)	(7,855)
Other	(2,221)	(3,595)	(5,816)
Increase in unrestricted net assets before discontinued operations	884,670	5,547	890,217
Discontinued operations - BCHS			
Income from operations	4,836	5,518	10,354
Costs associated with transfer of shares	(1,648)	-	(1,648)
Increase in unrestricted net assets	887,858	11,065	898,923
TEMPORARILY RESTRICTED NET ASSETS:			
Contributions	18,445	123	18,568
Net investment gain	4,549	26	4,575
Net assets released from restrictions	(21,271)	-	(21,271)
Other	907	(131)	776
Increase in temporarily restricted net assets	2,630	18	2,648
PERMANENTLY RESTRICTED NET ASSETS:			
Contributions for endowment funds	403	76	479
Net investment gain	2,534	1	2,535
Other	(211)	-	(211)
Increase in permanently restricted net assets	2,726	77	2,803
INCREASE IN NET ASSETS	893,214	11,160	904,374
NET ASSETS, BEGINNING OF YEAR	4,222,053	87,885	4,309,938
NET ASSETS, END OF YEAR	$ 5,115,267	$ 99,045	$ 5,214,312

(Concluded)

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011
(In Thousands)

	2012	2011
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (345,302)	$ 904,374
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	464,750	420,774
Provision for bad debts	431,457	334,170
Deferred retirement loss (gain) arising during the year	718,203	(142,612)
Cumulative effect of a change in accounting principle	-	7,855
Change in net unrealized and realized gains on investments	80,538	(429,117)
Change in market values of interest rate swaps	97,189	(29,258)
Undistributed equity earnings from unconsolidated affiliates	(33,584)	(25,664)
Loss (gain) on disposals of property and equipment	777	(2,307)
Restricted contributions and investment income received	(19,583)	(4,644)
Restricted net assets acquired related to LUHS and MHSC	(31,610)	-
Gain on bargain purchase agreement and inherent contribution - LUHS and MHSC	(216,796)	-
Net change in retirement plan related items due to transfer of shares of BCHS	(21,678)	-
Loss on transfer of shares of the BCHS	28,534	-
Decrease in noncontrolling interest due to transfer of the BCHS	82,910	-
Loss from extinguishment of debt	5,557	2,638
Gain on sales of unconsolidated affiliates	(1,712)	(6,617)
Other adjustments	(1,367)	4,777
Changes in, excluding assets acquired:		
Patient accounts receivable	(478,813)	(346,572)
Other assets	(42,829)	(20,758)
Accounts payable and accrued expenses	43,872	30,185
Estimated receivables from and payables to third-party payors, net	8,003	(48,917)
Self-insurance reserves	31,342	(13,091)
Accrued pension and retiree health costs	(67,444)	(171,506)
Other liabilities	(32,063)	10,472
Total adjustments	1,045,653	(430,192)
Net cash provided by operating activities	700,351	474,182

The accompanying notes are an integral part of the consolidated financial statements.

	2012	2011
INVESTING ACTIVITIES:		
Purchases of investments	(1,672,413)	(1,463,138)
Proceeds from sales of investments	1,602,586	1,381,129
Purchases of property and equipment	(605,288)	(441,052)
Acquisition of subsidiaries, net of $85.0 million and $7.0 million cash assumed in 2012 and 2011, respectively	(85,889)	(81,145)
Dividends received from unconsolidated affiliates and other changes	25,748	20,374
(Increase) decrease in assets limited as to use	(3,678)	4,475
Proceeds received from the transfer of shares of BCHS	15,843	60,512
Proceeds from sale of unconsolidated affiliates	2,441	12,258
Proceeds from disposal of property and equipment	4,737	4,046
Net cash used in investing activities	(715,913)	(502,541)
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	1,073,790	341,298
Repayments of debt	(961,604)	(254,571)
Net increase (decrease) in commercial paper	35,011	(69,978)
Increase in financing costs and other	(9,647)	(3,930)
Restricted net assets acquired related to LUHS and MHCS	31,049	-
Proceeds from restricted contributions and restricted investment income	19,583	4,644
Net cash provided by financing activities	188,182	17,463
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	172,620	(10,896)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	536,269	547,165
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 708,889	$ 536,269
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest (net of amounts capitalized)	$ 96,115	$ 99,799
New capital lease obligations for buildings and equipment	5,822	825
Accruals for purchases of property and equipment and other long-term assets	37,457	27,844
Unsettled investment trades, purchases	11,367	6,044
Unsettled investment trades, sales	12,346	77,019
Decrease in security lending collateral	18,940	6,521
Decrease in payable under security lending agreements	(18,940)	(6,521)

1. ORGANIZATION AND MISSION

Trinity Health, an Indiana not-for-profit corporation, and its subsidiaries are collectively referred to as the Corporation. The Corporation is sponsored by Catholic Health Ministries (CHM), a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in ten states. The mission statement for Trinity Health is as follows:

We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit, to improve the health of our communities and to steward the resources entrusted to us.

Community Benefit Ministry - Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments such as copays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA), ***A Guide for Planning and Reporting Community Benefit***, 2008 Edition.

The quantifiable costs of the Corporation's community benefit ministry for the years ended June 30 are as follows:

	2012 (In Thousands)	2011
Ministry for the poor and underserved:		
Charity care at cost	$ 177,747	$ 136,493
Unpaid cost of Medicaid and other public programs	211,104	152,014
Programs for the poor and the underserved:		
Community health services	18,210	19,613
Subsidized health services	39,296	34,854
Financial contributions	5,362	3,813
Community building activities	1,908	1,811
Community benefit operations	2,268	2,321
Total programs for the poor and underserved	67,044	62,412
Ministry for the poor and underserved	455,895	350,919
Ministry for the broader community:		
Community health services	8,452	8,337
Health professions education	89,649	61,308
Subsidized health services	18,876	13,950
Research	9,203	6,782
Financial contributions	25,631	3,174
Community building activities	4,410	5,161
Community benefit operations	3,061	2,914
Ministry for the broader community	159,282	101,626
Community benefit ministry	$ 615,177	$ 452,545

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2012 and 2011, the Corporation reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of $157.5 million and $126.0 million, respectively.

Ministry for the poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that healthcare is a basic human right.

Ministry for the broader community represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost to charge ratio methodology.

Unpaid cost of Medicaid and other public programs represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

Community health services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free immunization services, free or low cost prescription medications, and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians and students in allied health professions.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

Research includes unreimbursed clinical and community health research and studies on health care delivery.

Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Corporation and all wholly owned, majority-owned and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments that are not controlled by the Corporation are accounted for using the equity method of accounting. The Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

As further described in Note 3, the Corporation transferred its shares of Battle Creek Health System (BCHS) to Bronson Healthcare Group, Inc. effective July 1, 2011. As a result, at June 30, 2011, substantially all of the assets and liabilities of BCHS met the criteria for classifying those assets and liabilities as held for sale. The consolidated financial statements have been reclassified to present the operations of BCHS as a discontinued operation. The statements of cash flows include impacts of cash flows related to BCHS. Notes to these consolidated financial statements exclude BCHS.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances; recorded values of investments and goodwill; provisions for bad debts; reserves for losses and expenses related to health care professional and general liability; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds and other investments structured as limited liability corporations or partnerships. Commingled funds and investment funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Limited liability corporations and partnerships are accounted for under the equity method.

Investment Earnings – Investment earnings include interest and dividends, realized gains and losses on investments, holding gains and losses, and equity earnings. Investment earnings on assets held by trustees under bond indenture agreements, assets designated by the Board for debt redemption, assets held for borrowings under the intercompany loan program, and assets deposited in trust funds by a captive insurance company for self-insurance purposes in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other unrestricted investments and board designated funds are included in nonoperating investment income unless the income or loss is restricted by donor or law.

Derivative Financial Instruments – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rates, equity downside risk and other exposures. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis.

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. At June 30, 2012 and 2011, the Corporation had securities loaned of $141.4 million and $153.4 million, respectively, and received collateral (cash and noncash) totaling $143.4 million and $157.5 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in investment (loss) income on the consolidated statements of operations and changes in net assets.

Assets Limited as to Use – Assets set aside by the Board for future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

Donor-Restricted Gifts – Unconditional promises to give cash and other assets to the Corporation's various ministry organizations are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated statements of operations and changes in net assets.

Inventories – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted average cost method.

Property and Equipment – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from 2 to 50 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Goodwill – Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized.

Intangible Assets – Intangible assets include both definite and indefinite-lived intangible assets. The majority of the definite-lived intangibles are noncompete agreements with finite lives amortized using the straight-line method over their estimated useful lives, which range from 2 to 23 years. Indefinite-lived intangible assets include trade names and renewable licenses.

Asset Impairment –

Property and Equipment – Impairment testing is performed following a triggering event or whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable.

Goodwill – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. There is a two-step process for determining goodwill impairment. Step one compares the carrying value of each reporting unit with its fair value. If this test indicates the fair value is less than the carrying value, then step two is required. Step two compares the implied fair value of the reporting unit's goodwill with the carrying value of reporting unit's goodwill. The Corporation estimates the fair value of its reporting units using a discounted cash flow analysis.

Intangible Assets:

Definite –Lived – Impairment testing is performed if events or changes in circumstances indicate that the asset might be impaired.

Indefinite–Lived – Impairment testing is performed on an annual basis or more frequently if events or changes in circumstance indicate the asset may be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount.

The following table provides information on changes in the carrying amount of goodwill, which is included in the accompanying consolidated financial statements of the Corporation at June 30:

	2012	2011
	(In Thousands)	
As of July 1:		
Goodwill	$ 116,152	$ 54,480
Accumulated impairment loss	(7,855)	(7,855)
Total	108,297	46,625
Goodwill acquired during the year	2,090	61,672
Decrease due to sale of subsidiary	(2,683)	-
Total	$ 107,704	$ 108,297
As of June 30:		
Goodwill	$ 115,559	$ 116,152
Accumulated impairment loss	(7,855)	(7,855)
Total	$ 107,704	$ 108,297

The following table provides information regarding other intangible assets, which are included in the accompanying consolidated balance sheets of the Corporation at June 30, 2012 and 2011:

	(In Thousands)		
	Gross Carrying Amount	Accumulated Amortization	Net book Value
As of June 30, 2012:			
Definite-lived intangible assets:			
Noncompete agreements	$ 19,439	$ 13,199	$ 6,240
Physician guarantees	5,256	2,384	2,872
Other	6,085	187	5,898
Total definite-lived intangible assets	30,780	15,770	15,010
Indefinite-lived intangible assets:			
Trade names	43,762	-	43,762
Other	7,022	1,319	5,703
Total indefinite-lived intangible assets	50,784	1,319	49,465
Total intangible assets	$ 81,564	$ 17,089	$ 64,475
As of June 30, 2011:			
Definite-lived intangible assets:			
Noncompete agreements	$ 19,439	$ 9,970	$ 9,469
Physician guarantees	6,191	2,898	3,293
Other	2,271	1,051	1,220
Total definite-lived intangible assets	27,901	13,919	13,982
Indefinite-lived intangible assets:			
Trade names	5,474	-	5,474
Other	2,879	282	2,597
Total indefinite-lived intangible assets	8,353	282	8,071
Total intangible assets	$ 36,254	$ 14,201	$ 22,053

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue – The Corporation has agreements with third-party payors that provide for payments to the Corporation's ministry organizations at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated receivables from and payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Estimated receivables from third-party payors include amounts receivable from Medicare and state Medicaid meaningful use programs.

Allowance for Doubtful Accounts – Substantially all of the Corporation's receivables are related to providing healthcare services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Corporation's estimate for its allowance for doubtful accounts is based upon management's assessment of historical and expected net collections by payor.

Short-term Borrowings – Puttable variable rate demand bonds supported by self liquidity or liquidity facilities considered short-term in nature are included in short-term borrowings.

Other Long-Term Liabilities – Other long-term liabilities include accrued payments for the acquisition of Loyola University Health System as stipulated in the Definitive Agreement, deferred compensation, asset retirement obligations and interest rate swaps.

Premium and Capitation Revenue – The Corporation has certain ministry organizations that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accrued expenses in the consolidated balance sheets.

Certain of the Corporation's ministry organizations have entered into capitation arrangements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's ministry organizations are financially responsible for services provided to the health plan members by other institutional health care providers. Capitation revenue is recognized during the period for which the ministry organization is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheets.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services covered under the premium and capitation arrangements. The premium and capitation arrangement reserves are classified with accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Subsequent actual claim experience will differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges, and other factors. As settlements are made and estimates are revised, the differences are reflected in current operations. The Corporation limits a portion of its liability through stop-loss reinsurance.

Income Taxes – The Corporation and substantially all of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has taxable subsidiaries, which are included in the consolidated financial statements. Certain of the taxable subsidiaries have entered into tax sharing agreements and file consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation includes penalties and interest, if any, with its provision for income taxes in other nonoperating items in the consolidated statements of operations and changes in net assets.

Excess of Revenue Over Expenses – The consolidated statement of operations and changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), net change in postretirement plan related items, discontinued operations, extraordinary items and cumulative effects of changes in accounting principles.

Adopted Accounting Pronouncements –

On July 1, 2011, the Corporation adopted Accounting Standard Update (ASU) 2010-24, *"Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries,"* which provides clarification to companies in the healthcare industry on the accounting for professional liability and other similar insurance. This guidance states that receivables related to insurance recoveries should not be netted against the related claim liability and such claim liabilities should be determined without considering insurance recoveries. The adoption of this guidance resulted in an asset and liability being recorded in the consolidated financial statements at June 30, 2012, of $44.7 million in self-insurance, benefit plans and other and in self-insurance reserves.

On July 1, 2011, the Corporation adopted ASU 2010-28, *"Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts."* This guidance modifies the goodwill impairment test performed at the reporting unit level. It requires step two of the impairment test to be performed if the carrying amount of a reporting unit is zero or negative and after considering any adverse qualitative factors, it is more likely than not a goodwill impairment exists. The adoption of this guidance had no impact on the Corporation's consolidated statement of financial position and results of operations.

Forthcoming Accounting Pronouncements –

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*." This guidance amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and also the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements but for which the fair value is required to be disclosed. This guidance is effective for the Corporation beginning July 1, 2012. The adoption of this guidance will have no impact on the Corporation's consolidated statement of financial position and results of operations, but may result in additional disclosures to be presented in Note 10.

In July 2011, the FASB issued ASU 2011-07, *"Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities."* This guidance requires certain health care entities to present the provision for bad debts related to patient service revenues as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the statement of operations. In addition, it also requires enhanced disclosures regarding revenue recognition policies and the assessment of bad debt. This guidance is effective for the Corporation beginning July 1, 2012, with early adoption permitted, and must be retrospectively applied. This statement will result in a reduction of net patient service revenue, operating revenue and operating expense, but will have no impact on operating income in the statement of operations and changes in net assets and will also result in additional disclosures.

In September 2011, the FASB issued ASU 2011-08, *"Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment."* This guidance provides entities with the option of first assessing qualitative factors about the likelihood of goodwill impairment to determine whether further impairment assessment is necessary. This guidance is effective for the Corporation beginning July 1, 2012, with early adoption permitted. This guidance will not have an impact on the Corporation's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *"Disclosures About Offsetting Assets and Liabilities."* This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance is effective for the Corporation beginning July 1, 2013 and retrospective application is required. The Corporation has not yet evaluated the impact this guidance may have on the Corporation's consolidated financial statements.

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

Investments in Unconsolidated Affiliates – The Corporation and certain of its ministry organizations have investments in entities that are recorded under the cost and equity methods of accounting. At June 30, 2012, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 0.1% to 50%. The Corporation's share of equity earnings from entities accounted for under the equity method was $33.6 million and $25.6 million for the years ended June 30, 2012 and 2011, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended June 30 are as follows:

	2012 (In Thousands)					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	$ 88,425	$ 116,970	$ 76,078	$ 17,530	$ 137,711	$ 436,714
Total debt	$ 51,182	$ 17,804	$ 36,003	$ 27	$ 35,800	$ 140,816
Net assets	$ 30,765	$ 69,368	$ 29,733	$ 5,576	$ 80,235	$ 215,677
Revenue, net	$ 22,823	$ 155,521	$ 125,615	$ 20,537	$ 169,724	$ 494,220
Excess of revenue over expenses	$ 1,607	$ 24,908	$ 44,245	$ (188)	$ 13,972	$ 84,544

	2011 (In Thousands)					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	$ 90,205	$ 65,938	$ 73,366	$ 14,714	$ 147,207	$ 391,430
Total debt	$ 53,440	$ 19,721	$ 37,636	$ -	$ 44,113	$ 154,910
Net assets	$ 30,347	$ 36,286	$ 26,718	$ 6,064	$ 71,001	$ 170,416
Revenue, net	$ 24,226	$ 97,757	$ 107,164	$ 43,943	$ 136,722	$ 409,812
Excess of revenue over expenses	$ 1,699	$ 18,733	$ 40,853	$ 3,141	$ 5,747	$ 70,173

Business Acquisitions – The Corporation entered into the following significant acquisition activities during the years ended June 30, 2012 and 2011:

Acquisition of Mercy Health System of Chicago (MHSC) – Effective April 1, 2012, the Corporation became the sole member of MHSC. MHSC is the parent of Mercy Hospital and Medical Center (Mercy Hospital) and other subsidiaries and affiliates that provide health care services in Chicago, Illinois. Mercy Hospital has a network of primary care clinics, physician offices and satellite facilities. The fair value of assets acquired exceeded liabilities assumed resulting in an inherent contribution of $140.8 million, which was recorded in gain on bargain purchase and inherent contribution in the consolidated statement of operations and changes in net assets for the year ended June 30, 2012. The Corporation is still assessing the economic characteristics of certain assets acquired and liabilities assumed. Transactions costs accrued at June 30, 2012 totaled $0.8 million, primarily for legal and consulting services, and are included in purchased services on the consolidated statement of operations and changes in net assets.

Summarized consolidated opening balance sheet information for MHSC is shown below:

(In Thousands)

Cash, cash equivalents and investments	$ 13,777	Current portion of long-term debt	$ 819
Patient accounts receivable, net	42,746	Accounts payable and accrued expenses	41,815
Other current assets	35,018	Other current liabilities	12,957
Assets limited or restricted as to use	16,451	Long-term debt	48,907
Property and equipment	166,529	Self-insurance reserves	36,362
Intangible assets	11,000	Total liabilities acquired	$ 140,860
Other assets	749		
Total assets acquired	$ 286,270	Unrestricted noncontrolling interest	561
		Temporarily restricted net assets	4,016
		Total net assets	$ 4,577

The operating results of MHSC for the period April 1, 2012 through June 30, 2012 included total unrestricted revenue of $68.3 million, operating income of $4.7 million and excess of revenue over expense of $4.5 million.

Acquisition of Loyola University Health System (LUHS) – On July 1, 2011, the Corporation replaced Loyola University of Chicago (University) as the sole member of LUHS, an Illinois not-for-profit corporation. LUHS is the sole member of Loyola University Medical Center and Gottlieb Memorial Hospital (Gottlieb), both Illinois not-for-profit corporations. LUHS was also the sole shareholder of Loyola University of Chicago Insurance Company (LUCIC), a Cayman Islands Corporation until December 31, 2011, as further described in Note 7. The Corporation will coordinate with the University to support health science education and research. The entities seek to work collaboratively both within and outside the Chicago market to become one of the nation's leading providers of Catholic health care, research and medical education.

The Corporation acquired LUHS for $212.9 million, $88.3 million in cash at the effective date, $49.6 million in cash based on a post closing reconciliation adjustment to the purchase price as stipulated in the Definitive Agreement and paid in October 2011, and an accrual of an additional $75.0 million to be paid over future years. The Corporation recorded indefinite-lived intangible assets, primarily for a trade name, of $36.1 million in the consolidated balance sheet at the acquisition date. Based on the purchase price allocation, the fair value of assets acquired and liabilities assumed exceeded the fair value of consideration paid and accrued. As a result, the Corporation recognized a gain of $76.0 million in gain on bargain purchase and inherent contribution in the consolidated statement of operations and changes in net assets. Transaction costs, primarily for legal and consulting services, accrued at June 30, 2011 and subsequently paid during the three months ended September 30, 2011 totaled $6.0 million.

Summarized consolidated opening balance sheet information for LUHS is shown below.

(In Thousands)			
Cash, cash equivalents and investments	$ 76,865	Current portion of long-term debt	$ 163,834
Patient accounts receivable, net	153,006	Accounts payable and accrued expenses	50,947
Inventory	15,276	Estimated payables to third party payors	72,320
Other current assets	49,568	Other current liabilities	48,245
Assets limited or restricted as to use	298,997	Long-term debt	212,536
Property and equipment	522,076	Self-insurance reserves	242,058
Intangible assets	36,170	Pension and post retirement plan obligations	59,866
Other assets	32,378	Other liabilities	18,596
Total assets acquired	$ 1,184,336	Total liabilities acquired	$ 868,402
		Temporarily restricted net assets	$ 20,362
		Permanently restricted net assets	6,671
		Total net assets	$ 27,033

As of August 8, 2011, all of LUHS' debt was retired with the proceeds from the Corporation's issuance of $234 million of taxable commercial paper and cash on hand as further described in Note 6.

As part of the LUHS acquisition, certain executed agreements provide for ongoing financial support from the Corporation including:

- A Definitive Agreement upon which the Corporation has agreed that over the seven year period from July 1, 2011 to 2018, at least $300 million will be expended on capital projects and, if certain operating thresholds are met, the amount may be increased to $400 million.
- An Academic Affiliation Agreement, which has an initial term of ten years starting July 1, 2011 and provides for an annual academic support payment from the Corporation to the University of $22.5 million for the year ended June 30, 2012, adjusted annually for inflation.
- A Shared Services Agreement between the University and LUHS who have agreed on a cost sharing agreement related to common employees and services.

The operating results of LUHS for the period July 1, 2011 through June 30, 2012, included total unrestricted revenue of $1.1 billion, operating income of $0.3 million and deficiency of revenue over expense of $13.0 million.

The amount of the Corporation's revenue, earnings and changes in net assets had the acquisitions of LUHS and MHSC occurred on July 1, 2010 are as follows:

	2012	2011
	(In Thousands)	
Total operating revenue	$ 9,093,578	$ 8,670,670
Excess of revenue over expenses	$ 374,352	$ 720,773
Change in unrestricted net assets	$ (372,145)	$ 1,003,973
Change in temporarily restricted net assets	$ 27,871	$ 3,632
Change in permanently restricted net assets	$ 6,079	$ 2,834

Integrated Health Associates (IHA) – Effective December 20, 2010, the Corporation through its operating division Saint Joseph Mercy Health System (SJMHS) acquired IHA, a physician practice group with approximately 200 physicians and practitioners, for $60.5 million in cash and recorded related goodwill of $46.6 million. Under the terms of the agreement, an additional $2.0 million post closing adjustment to the purchase price was paid during the year ended June 30, 2012. IHA has been consolidated in the Corporation's financial statements. Summarized balance sheet information for IHA at December 20, 2010, is shown below.

(In Thousands)

Cash and investments	$	7,035	Current liabilities	$	21,475
Patient accounts receivable		16,389	Other liabilities		2,742
Other current assets		4,416	Total liabilities acquired	$	24,217
Property and equipment		5,382			
Other assets		6,907			
Total assets acquired	$	40,129			

The operating results of IHA for the period July 1, 2011 through June 30, 2012, included total unrestricted revenue of $150.3 million, operating income of $6.2 million and excess of revenue over expenses of $6.8 million and for the period December 20, 2010 through June 30, 2011, included total unrestricted revenue of $52.4 million, operating income of $1.9 million and deficiency of revenue over expense of $18.9 million. The deficiency of revenue over expenses for the year ended June 30, 2011 includes a $20.8 million charge for income taxes for conversion to non-profit status, which is included in nonoperating items.

Michigan Heart, PC – Effective December 31, 2010, the Corporation, through its operating division SJMHS, acquired the assets and liabilities of Michigan Heart, PC, a physician-owned specialty practice in cardiovascular medicine and research for $11.7 million in cash and recorded related goodwill of $13.2 million. The assets and liabilities were merged into and employees were transferred to two operating divisions of the Corporation and have been consolidated in the Corporation's financial statements. SJMHS purchased $3.6 million of property and equipment and assumed current liabilities of $4.5 million and other liabilities of $0.6 million. The operating results of this acquisition were not material to the consolidated financial statements of the Corporation.

Business Divestitures:

On July 1, 1991, Battle Creek Health System (BCHS) was formed through an agreement between the Corporation and Community Hospital Association of Battle Creek, Michigan with the Corporation owning 50% of the stock of BCHS with effective control of BCHS. Effective July 1, 2011, the Corporation transferred its shares of BCHS to Bronson Healthcare Group, Inc. for $76.0 million, of which $60.0 million was received as an advanced deposit in June 2011. As a result of the transfer, a loss of $28.5 million was recognized which includes a pension curtailment gain of $5.8 million and settlement loss of $27.5 million.

As described in Note 2, the consolidated financial statements for all periods present the operations of BCHS as a discontinued operation. For the year ended June 30, 2012, the Corporation reported a loss on operations of $5.4 million in discontinued operations in the statement of changes in net assets. For the year ended June 30, 2011, the Corporation reported income from operations, including a 50% provision for noncontrolling interest, in discontinued operations in the statements of operations and changes in net assets. As of June 30, 2011, assets held for sale were $185.4 million and liabilities held for sale were $28.9 million for BCHS prior to a 50% provision for noncontrolling interest. The majority of assets and liabilities held for sale consisted of:

(In Thousands)

Cash and investments	$	53,167	Current liabilities	$	17,766
Patient accounts receivable		18,538	Accrued pension costs		10,197
Other current assets		10,765	Other liabilities		955
Property and equipment		97,808	Total liabilities	$	28,918
Other assets		5,159			
Total assets	$	185,437			

4. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors follows:

Medicare – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

Medicaid – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules, and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

During the years ended June 30, 2012 and 2011, 37% and 38% of net patient service revenue was recognized under the Medicare program and 52% and 51% was recognized from other payor contracts and patients, respectively. During the years ended June 30, 2012 and 2011, 11% of net patient service revenue was received under state Medicaid and indigent care programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care – The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify for charity care, they are not reported as net patient service revenue in the consolidated statements of operations and changes in net assets.

A summary of net patient service revenue for the years ended June 30 is as follows:

	2012	2011
	(In Thousands)	
Gross charges:		
Acute inpatient	$ 9,226,067	$ 7,559,780
Outpatient, nonacute inpatient, and other	10,045,912	7,534,024
Gross patient service revenue	19,271,979	15,093,804
Less:		
Contractual and other allowances	(10,725,957)	(8,044,327)
Charity care charges	(541,490)	(409,897)
Allowance for self-insured health benefits	(155,371)	(143,661)
Net patient service revenue	$ 7,849,161	$ 6,495,919

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

	2012	2011
	(In Thousands)	
Land	$ 237,551	$ 188,787
Buildings and improvements	4,725,325	4,026,430
Equipment	3,168,354	2,966,349
Total	8,131,230	7,181,566
Less accumulated depreciation and amortization	(4,240,315)	(3,989,867)
Construction in progress	330,912	182,404
Property and equipment, net	$ 4,221,827	$ 3,374,103

Buildings and improvements include assets recorded under capital leases of $74.0 million and $31.7 million with accumulated amortization for such assets of $12.9 million and $9.3 million at June 30, 2012 and 2011, respectively. Equipment includes assets recorded under capital leases of $10.1 million and $10.9 million with accumulated amortization for such assets of $7.1 million and $7.5 million at June 30, 2012 and 2011, respectively. The associated charges to income are recorded in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

At June 30, 2012, commitments to purchase property and equipment of approximately $256.1 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following ministry organizations: Mount Carmel Health System in Columbus, Ohio - $89.2 million; Holy Cross Hospital in Silver Spring, Maryland - $48.4 million; SJMHS in Ann Arbor, Michigan - $39.1 million; MCHS in Chicago, Illinois - $36.3 million; Saint Joseph Mercy Oakland in Pontiac, Michigan - $21.0 million; and Mercy Medical Center in Dubuque, Iowa - $6.2 million. Costs of these projects are expected to be financed by proceeds from bond issuances, available funds, future operations of the hospitals and contributions.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings and long-term debt at June 30 is as follows:

	2012	2011
	(In Thousands)	
Short-term borrowings:		
Variable rate demand bonds with contractual maturities through 2048. Interest payable monthly at rates ranging from 0.02% to 0.86% during 2012 and from 0.05% to 0.35% during 2011	$ 892,865	$ 1,121,270
Long-term debt:		
Tax-exempt revenue bonds and refunding bonds, fixed rate term and serial bonds, payable at various dates through 2048. Interest rate ranges from 2.0% to 6.5% during 2012 and 2011	$ 2,162,070	$ 1,508,985
Notes payable to banks. Interest payable at rates ranging from 2.0% to 8.9%, fixed and variable, payable in varying monthly installments through 2021	4,582	14,191
Capital lease obligations (excluding imputed interest of $51.2 million and $16.4 million at June 30, 2012 and 2011, respectively)	72,746	31,021
Mortgage obligations. Interest payable at rates ranging from 4.1% to 6.0% during 2012 and 6.0% in year 2011	64,000	3,575
Long-term debt	2,303,398	1,557,772
Less current portion	(32,362)	(29,514)
Unamortized bond premiums	31,200	2,644
Long-term debt	$ 2,302,236	$ 1,530,902

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows:

	(In Thousands)	
	Short-Term Borrowings	Long-Term Debt
Years ending June 30:		
2013	$ 25,735	$ 32,362
2014	33,250	26,418
2015	23,710	38,141
2016	25,015	46,540
2017	26,590	41,053
Thereafter	758,565	2,118,884
Total	$ 892,865	$ 2,303,398

A summary of interest costs on borrowed funds primarily under the revenue bond indentures during the years ended June 30 is as follows:

	2012	2011
	(In Thousands)	
Interest costs incurred	$ 108,390	$ 85,809
Less capitalized interest	(5,609)	(1,738)
Interest expense included in operations	$ 102,781	$ 84,071

Obligated Group and Other Requirements – The Corporation has debt outstanding under a Master Trust Indenture dated July 1, 1998, as amended and supplemented thereto, the Amended and Restated Master Indenture (ARMI). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are general, direct obligations of the Corporation and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI, the Corporation is the sole member of the Trinity Health Obligated Group. Certain ministry organizations of the Corporation constitute designated affiliates and the Corporation covenants to cause each designated affiliate to pay, loan or otherwise transfer to the Corporation such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Corporation, the designated affiliates and all other controlled affiliates are referred to as the Credit Group. The Corporation has granted a security interest in certain pledged property and has caused not less than 85% of the designated affiliates representing, when combined with the Corporation and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to the Corporation security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) were $3,055 million and $2,630 million at June 30, 2012 and 2011, respectively.

There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding at June 30, 2012 and 2011, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

MHSC has a commitment from the U.S. Department of Housing and Urban Development (HUD) to insure an approximate $66 million mortgage loan, under the Federal Housing Administration's Section 242 Hospital Mortgage Insurance Program. At June 30, 2012, the outstanding obligation is $53 million. MHSC's main hospital campus and two satellite facilities are collateral for the mortgage. The mortgage loan agreement with HUD contains various covenants including those relating to limitations on incurring additional debt, disposing of property, financial performance, insurance coverage and timely submission of specified financial reports.

Issuance and Defeasance of Debt **–** In May 2012, the Corporation issued $101.9 million in tax-exempt, fixed rate hospital revenue bonds (Series 2012 Bonds) under its ARMI. The proceeds, along with cash, were used to refund the Corporation's $126.2 million series 2002C bonds and pay costs of issuance. Concurrently, with the series 2012 financing, the Corporation re-offered approximately $192.8 million of its existing series 2008C, series 2009B and series 2009C variable rate demand bonds in a long-term fixed rate mode. The Corporation also defeased $35.0 million of outstanding hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of $7.0 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets. In addition, on June 1, 2012, the Corporation converted $189.3 million of its currently outstanding variable rate bonds (Series 2008D-2 Bonds) from a weekly mode to a flexible mode.

In December 2011, the Corporation defeased $36.2 million of outstanding hospital revenue bonds. This transaction resulted in a loss from extinguishment of debt of $0.7 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets.

In October 2011, the Corporation issued $648.7 million in tax-exempt, fixed rate hospital revenue bonds and $100.0 million in variable rate hospital revenue bonds (Series 2011 Bonds) under ARMI. The proceeds will be used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire $69.4 million of the Corporation's then outstanding fixed rate hospital revenue bonds and $102.9 million of the Corporation's then outstanding variable rate hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of $2.5 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets. In addition, $354.0 million of the proceeds were used to pay off commercial paper obligations.

In July 2011, the Corporation extinguished $338.4 million of outstanding hospital revenue bonds related to LUHS through the issuance of commercial paper. These transactions resulted in a loss from extinguishment of debt of $3.3 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets.

The Corporation advance refunded, through net defeasance, $38.9 million of debt issued under the ARMI during June 2011. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. These transactions resulted in a loss from extinguishment of debt of $5.2 million, which has been included in nonoperating items in the Corporation's consolidated statement of operations and changes in net assets.

In October 2010, the Corporation issued $330 million par value tax-exempt, fixed rate hospital revenue bonds and refunding bonds under the ARMI at a premium of $11.3 million. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire $158.8 million of the Corporation's then outstanding fixed rate hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of $5.0 million, which has been included in nonoperating items in the Corporation's consolidated statement of operations and changes in net assets.

The outstanding balance of all bonds advance refunded through net defeasance and excluded from the consolidated balance sheets was $318.5 million and $202.9 million at June 30, 2012 and 2011, respectively. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities.

Commercial Paper – The Corporation has entered into a commercial paper program authorized for borrowings up to $400 million. Proceeds from this program are to be used to finance certain acquisitions and for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the year ended June 30, 2012 ranged from 0.08% to 0.22% and ranged from 0.15% to 0.40% during the year ended June 30, 2011.

Liquidity Facilities – In July 2011, the Corporation renewed the 2010 Credit Agreements (2011 Credit Agreements) with Bank of America, N.A., which acts as an administrative agent for a group of lenders thereunder. The 2011 Credit Agreements establish a revolving credit facility for the Corporation under which that group of lenders agrees to lend to the Corporation amounts that may fluctuate from time to time; at June 30, 2012, the amount available was $916 million. Amounts drawn under the 2011 Credit Agreements can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the $916 million, $225 million expires in July 2012, $195 million expires in July 2013, $240 million expires in July 2014 and $256 million expires in July 2015. There were no draws on these credit agreements during the years ended June 30, 2012 or 2011.

Standby Letters of Credit – The Corporation entered into various standby letters of credit totaling approximately $21.5 million and $18.3 million at June 30, 2012 and 2011, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs. There were no draws on these letters of credit during the years ended June 30, 2012 or 2011.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation's insurance company, Venzke Insurance Company, Ltd. (Venzke), a wholly owned subsidiary of Trinity Health, qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to the Corporation's ministry organizations. The Corporation is self-insured for certain levels of general and professional liability, workers' compensation, and certain other claims. The Corporation, through Venzke, has limited its liability by purchasing reinsurance and commercial coverage from unrelated third-party insurers.

As discussed in Note 3, on July 1, 2011, Trinity Health-Michigan, a wholly-owned subsidiary of Trinity Health, replaced the University as the sole shareholder of LUCIC, a captive insurance company in the domicile where it operates. Effective July 1, 2011, Venzke's policies include the facilities and individuals that were previously insured with LUCIC. Policies issued and reinsurance purchased by LUCIC prior to July 1, 2011 and all losses previous to July 1, 2011 were assumed through a merger with Venzke at December 31, 2011. As discussed in Note 3, on April 1, 2012, the Corporation became the sole member of MHSC, which included assuming MHSC's professional liability losses.

For the years ended June 30, 2012 and 2011, the Corporation's self-insurance program includes $20 million per occurrence for the first layers of professional liability, as well as $1 million per occurrence for directors and officers liability and $1 million per occurrence for the insured auto liability program. Additional layers of professional liability insurance were available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is $100 million in aggregate. The Corporation also insures $500,000 in property damage liability with commercial insurance providing coverage up to $1 billion.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2012, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that

settlement of asserted claims and claims that may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of Counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations or cash flows of the Corporation.

8. PENSION AND OTHER BENEFIT PLANS

Self-Insured Employee Health Benefits – The Corporation administers self-insured employee health benefit plans for employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's ministry organizations or other health care providers. Gross patient service revenue has been reduced by an allowance for self-insured employee health benefits of $155.4 million and $143.7 million for the years ended June 30, 2012 and 2011, respectively, which represented revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

Retirement Plan Acquisitions – The Corporation acquired LUHS on July 1, 2011, including its benefit plans. LUHS maintains three qualified, noncontributory defined benefit pension plans that provide retirement benefits for substantially all full-time employees. Two of these plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA). The third plan is a Church plan as determined by the Internal Revenue Service and is not governed by ERISA. One of the ERISA plans was frozen by LUHS for employees with service through March 2004. This plan is a multiple-employer plan and administration of the plan is the responsibility of Loyola University of Chicago. LUHS's calculated accrued benefit obligation represents approximately 62% of the total multiple-employer plan accrued benefit obligation. Trinity Health amended the remaining two plans to freeze accrued benefits effective December 31, 2012, and participants in those plans will become participants of the Corporation's defined benefit plan effective January 1, 2013. The amendments to freeze both plans resulted in a decrease in the plans' liabilities of $27.0 million at June 30, 2012.

LUHS also maintains qualified defined contribution plans for certain eligible employees as well as nonqualified pension programs and deferred compensation arrangements for eligible executives. In addition, LUHS provides other postretirement benefits (primarily health benefits) to an eligible group of employees. This plan is closed to new participants. Health benefits are provided subject to various cost-sharing features and are not prefunded.

The Corporation acquired MHSC on April 1, 2012, including its defined contribution plan. The plan covers substantially all of MHSC's employees and provides an employer matching contribution of up to 3% of compensation.

Deferred Compensation – The Corporation has nonqualified deferred compensation plans at certain ministry organizations that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. At June 30, 2012 and 2011, the assets under these plans totaled $60.8 million and $52.7 million, and liabilities totaled $67.4 million and $54.9 million, respectively.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. The plans include discretionary employer matching contributions of up to 3% of compensation. Employer and employee contributions are self-directed by plan participants in defined contribution plans. Contribution expense under the plans totaled $71.4 million and $62.2 million during the years ended June 30, 2012 and 2011, respectively.

Noncontributory Defined Benefit Pension Plans (Pension Plans) – Substantially all of the Corporation's employees participate in a qualified, noncontributory defined benefit pension plan. Certain non-qualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. In September 2009, the Corporation amended its defined benefit pension plan to modify the benefit formula from a final average pay formula to a cash balance formula effective July 1, 2010. Accrued benefits frozen through June 30, 2010 were based on years of service and employees' highest five years of compensation. Beginning July 1, 2010, participants accrue benefits based on the cash balance formula, which credits participants annually with a percentage of eligible compensation based on age and years of service, as well as an interest credit based on a benchmark interest rate. A transition adjustment is provided to participants who were vested as of June 30, 2010, whose age and service met certain requirements at that date. The transition adjustment applies to the pension benefit earned through June 30, 2010 and increased compensation under the final average pay formula over a 5-year period. Because the Pension Plan has Church Plan status as defined in the ERISA, funding in accordance with ERISA is not required. The Corporation's adopted funding policy for its qualified plan, which is reviewed annually, is to fund the current normal cost based on the accumulated benefit obligation at the plans' December 31 year-end, and amortization of any under or over funding over a ten year period. The Corporation funded $64.2 million in excess of the stated funding policy for the combined fiscal years ending June 30, 2012 and 2011.

During the year ended June 30, 2012, the Corporation recorded a pension curtailment gain of $5.8 million and a pension settlement loss of $27.5 million related to the sale of BCHS described in Note 3. The net loss is included in the loss from discontinued operations in the consolidated statement of operations and changes in net assets.

***Postretirement Health Care and Life Insurance Benefits (Postretirement Plans*)** **–** The Corporation sponsors both funded and unfunded contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The plans cover certain hourly and salaried employees who retire from certain ministry organizations. Medical benefits for these retirees are subject to deductibles and co-payment provisions. In June 2010, the Corporation approved an amendment to restructure the funded plans as Health Reimbursement Account arrangements for Medicare eligible participants effective January 1, 2011.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations, changes in plan assets and funded status of the plans for both the Pension and Postretirement Plans for the years ended June 30, 2012 and 2011:

	2012	2011	2012	2011
	(In Thousands)			
	Pension Plans		Postretirement Plans	
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 3,961,864	$ 3,756,053	$ 110,739	$ 112,807
Service cost	141,408	116,331	1,023	1,119
Interest cost	256,058	221,527	6,254	6,048
Amendments	(32,761)	-	-	(442)
Actuarial loss (gain)	601,102	(9,007)	(482)	(2,741)
Benefits paid	(159,211)	(123,040)	(5,707)	(6,428)
Medicare Part D reimbursement	-	-	674	376
Acquisiton of LUHS	392,737	-	4,220	-
Benefit obligation, end of year	5,161,197	3,961,864	116,721	110,739
Change in plan assets:				
Fair value of plan assets, beginning of year	3,647,407	3,140,162	78,254	71,203
Actual return on plan assets	168,122	372,678	4,649	12,039
Employer contributions	146,347	257,607	1,964	1,440
Benefits paid	(159,211)	(123,040)	(5,707)	(6,428)
Acquisiton of LUHS	338,527	-	-	-
Fair value of plan assets, end of year	4,141,192	3,647,407	79,160	78,254
Unfunded amount recognized June 30	$ (1,020,005)	$ (314,457)	$ (37,561)	$ (32,485)

Actuarial losses incurred during the year ended June 30, 2012 are primarily the result of a decrease in the discount rates used to measure the plan’s liabilities.

The accumulated benefit obligation and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30 are as follows:

	2012	2011
	(In Thousands)	
	Pension Plans	
Accumulated benefit obligation	$ 5,038,497	$ 3,853,728
Fair value of plan assets	4,141,192	3,647,407
Funded status	$ (897,305)	$ (206,321)

Components of net periodic benefit cost for the years ended June 30 consisted of the following:

	2012	2011	2012	2011
	(In Thousands)			
	Pension Plans		Postretirement Plans	
Service cost	$ 141,408	$ 116,331	$ 1,023	$ 1,119
Interest cost	255,990	221,527	6,254	6,048
Expected return on assets	(317,290)	(252,402)	(6,025)	(5,465)
Amortization of prior service cost	(19,438)	(18,504)	(7,318)	(7,470)
Recognized net actuarial loss	70,336	90,655	1,283	3,204
Net periodic benefit cost (income)	$ 131,006	$ 157,607	$ (4,783)	$ (2,564)

The amounts in unrestricted net assets (inclusive of $21.7 million related to BCHS' pension plan liabilities held for sale at June 30, 2011 and sold on July 1, 2011), including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	(In Thousands)		
	Pension Plans		
	Net Loss (Gain)	Prior Service Cost	Total
Balance at July 1, 2010	$ 1,408,944	$ (217,422)	$ 1,191,522
Reclassified into net periodic benefit cost	(92,788)	19,073	(73,715)
Arising during the year	(132,908)	-	(132,908)
Balance at June 30, 2011	1,183,248	(198,349)	984,899
Curtailments / settlements	(21,678)	-	(21,678)
Reclassified into net periodic benefit cost	(70,336)	19,438	(50,898)
Arising during the year	750,047	(32,762)	717,285
Balance at June 30, 2012	$ 1,841,281	$ (211,673)	$ 1,629,608

	(In Thousands)			
	Postretirement Plans			All Plans
	Net Loss (Gain)	Prior Service Credit	Total	Grand Total
Balance at July 1, 2010	$ 30,946	$ (31,823)	$ (877)	$ 1,190,645
Reclassified into net periodic benefit cost	(3,204)	7,470	4,266	(69,449)
Arising during the year	(9,262)	(442)	(9,704)	(142,612)
Balance at June 30, 2011	18,480	(24,795)	(6,315)	978,584
Curtailments / settlements	-	-	-	(21,678)
Reclassified into net periodic benefit cost	(1,283)	7,318	6,035	(44,863)
Arising during the year	918	-	918	718,203
Balance at June 30, 2012	$ 18,115	$ (17,477)	$ 638	$ 1,630,246

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during 2013:

	(In Thousands)	
	Pension Plans	Postretirement Plans
Amortization of prior service credit	$ (23,091)	$ (7,318)
Recognized net actuarial loss	122,721	1,242
Total	$ 99,630	$ (6,076)

Assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

	2012	2011	2012	2011
	Pension Plans		Postretirement Plans	
Benefit Obligations:				
Discount rate	4.70% - 5.05%	6.00%	4.25% - 4.85%	5.10% - 5.75%
Rate of compensation increase in 2012 Graduated to 4% by 2016	2.0%	4.0%	N/A	N/A
Net Periodic Benefit Cost:				
Discount rate	5.95% - 6.0%	6.00%	5.10% - 5.75%	4.55% - 5.80%
Expected long-term return on plan assets	7.80% - 8.0%	8.00%	8.00%	8.00%
Rate of compensation increase in 2011 Graduated to 4% by 2012	4.0%	3.5%	N/A	N/A

Approximately 91% of the Corporation's pension plan liabilities are measured using the 5.05% discount rate at June 30, 2012.

The Corporation uses an efficient frontier analysis approach in determining its asset allocation and long-term rate of return for plan assets. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

Health Care Cost Trend Rates – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as follows:

	2012	2011
Medical and drugs, pre-age 65	8.3%	8.9%
Medical and drugs, post-age 65	8.3%	8.9%
Ultimate trend rate	5.0%	5.0%
Year rate reaches the ultimate rate	2018	2018

A one-percentage point change in assumed health care cost trend rates would have the following effects at June 30, 2012:

	(In Thousands) One-Percentage-Point Increase	(In Thousands) One-Percentage-Point Decrease
Effect on postretirement benefit obligation	$ 3,787	$ (3,201)
Effect on total of service cost and interest cost components	$ 258	$ (213)

The Corporation's investment allocations at June 30, by investment category are as follows:

	2012 Pension Plans	2011 Pension Plans	2012 Postretirement Plans	2011 Postretirement Plans
Investment Category:				
Cash and cash equivalents	10%	8%	2%	1%
Marketable securities:				
U.S. and non-U.S equity securities	7%	11%	59%	56%
Equity mutual funds	2%	2%	-	-
Debt securities	35%	33%	39%	43%
Other investments:				
Commingled funds	11%	13%	-	-
Hedge funds	30%	29%	-	-
Private equity funds	5%	4%	-	-
Total	100%	100%	100%	100%

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other investments such as hedge funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. For the majority of the Corporation's pension plan investments, the combined target investment allocation at June 30, 2012 was U.S. and non-U.S. equity securities 15%; fixed income obligations 35%; hedge funds 20%; long/short equity 15%; private equity 5%; opportunistic fixed income 7%; and real assets 3%.

The following tables summarize the Pension and Postretirement Plans' assets measured at fair value at June 30, 2012 and 2011. See Note 10 for definitions of Levels 1, 2 and 3 of the fair value hierarchy.

	2012 (In Thousands)			
Pension Plans:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 396,043	$ 1,422	$ -	$ 397,465
Equity securities				
U.S. common stock	260,667	682	-	261,349
Non U.S. common stock	12,458	-	-	12,458
Debt securities				
Government and government agency obligations	-	433,634	-	433,634
Corporate bonds	-	1,010,844	-	1,010,844
Asset backed securities	-	23,046	-	23,046
Mutual funds				
Equity mutual funds	96,352	-	-	96,352
Fixed income mutual funds	11,393	7,617	-	19,010
Total marketable securities	776,913	1,477,245	-	2,254,158
Commingled funds	-	438,575	-	438,575
Hedge funds	-	39,693	1,211,388	1,251,081
Private equity	-	-	204,250	204,250
Real estate partnerships	-	-	520	520
Other	(7,392)	-	-	(7,392)
Total Pension Plans' assets at fair value	$ 769,521	$ 1,955,513	$ 1,416,158	$ 4,141,192
Postretirement Plans:				
Mutual funds				
Short-term investment mutual funds	$ 1,178	$ -	$ -	$ 1,178
Fixed income mutual fund	31,291	-	-	31,291
Commingled funds	-	46,638	-	46,638
Other	53	-	-	53
Total Postretirement Plans' assets at fair value	$ 32,522	$ 46,638	$ -	$ 79,160

	2011 (In Thousands)			
Pension Plans:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 273,252	$ 101	$ -	$ 273,353
Equity securities				
U.S. common stock	395,957	29	-	395,986
Non U.S. common stock	16,285	63	-	16,348
Debt securities				
Government and government agency obligations	-	289,614	-	289,614
Corporate bonds	-	894,178	-	894,178
Asset backed securities	-	18,585	-	18,585
Mutual funds				
Equity mutual funds	94,044	-	-	94,044
Total marketable securities	779,538	1,202,570	-	1,982,108
Commingled funds	-	477,919	-	477,919
Hedge funds	-	-	1,045,751	1,045,751
Private equity	79	-	134,336	134,415
Real estate partnerships	-	-	3,848	3,848
Other	3,491	(125)	-	3,366
Total Pension Plans' assets at fair value	$ 783,108	$ 1,680,364	$ 1,183,935	$ 3,647,407
Postretirement Plans:				
Mutual funds				
Short-term investment mutual funds	$ 755	$ -	$ -	$ 755
Fixed income mutual fund	33,445	-	-	33,445
Commingled funds	-	44,054	-	44,054
Total Postretirement Plans' assets at fair value	$ 34,200	$ 44,054	$ -	$ 78,254

Unfunded capital commitments related to Level 3 private equity investments totaled $191.5 million and $198.5 million at June 30, 2012 and 2011, respectively.

There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2012 or 2011.

See Note 10 for the Corporation's methods and assumptions to estimate the fair value of marketable securities and commingled funds.

HedgeFunds – The Pension Plan invests in various hedge fund strategies. These funds utilize a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies, and derivatives. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.

Private Equity – These assets include several private equity funds that invest primarily in the United States, Asia and Europe, both directly and on the secondary market, pursuing distressed opportunities and natural resources, primarily energy. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

Real Estate Partnerships – These assets are reported at fair value based on either independent appraisals performed by the general partner during the year, or estimated using discounted cash flow and market analysis, supported by sales comparison information.

Other – Represents unsettled transactions relating primarily to purchases and sales of plan assets, accrued income, and derivatives. Due to the short maturity of these assets and liabilities, the fair value is equal to the carrying amounts. Concerning derivatives, the Pension Plans are party to certain agreements, which are designed to manage exposures to equities and interest rate risks. These instruments are used for the purpose of hedging changes in the fair value of assets and actuarial present value of accumulated plan benefits that result from interest rate changes, or as an efficient substitute for traditional securities. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension Plans' investment policies specifically prohibit the use of derivatives for speculative purposes.

The following tables summarize the changes in Level 3 Pension Plan assets for the years ended June 30:

	(In Thousands)				
	Corporate Bonds	**Hedge Funds**	**Private Equity**	**Real Estate Partnerships**	**Total**
Balance at July 1, 2010	$ 6,242	$ 906,684	$ 104,209	$ 5,260	$ 1,022,395
Transfers out of level 3	(6,060)	-	-	-	(6,060)
Realized (loss) gain	(182)	(4,310)	2,017	821	(1,654)
Unrealized gain (loss)	-	89,223	13,476	(1,412)	101,287
Purchases	-	96,438	26,972	-	123,410
Sales	-	(42,746)	-	-	(42,746)
Settlements	-	462	(12,338)	(821)	(12,697)
Balance at June 30, 2011	-	1,045,751	134,336	3,848	1,183,935
Acquisition of LUHS	-	-	7,038	119	7,157
Realized gain	-	24,990	6,761	18	31,769
Unrealized (loss) gain	-	(29,924)	3,730	(480)	(26,674)
Purchases	-	537,598	75,340	-	612,938
Sales	-	(367,524)	(2,911)	(36)	(370,471)
Settlements	-	497	(20,044)	(2,949)	(22,496)
Balance at June 30, 2012	$ -	$ 1,211,388	$ 204,250	$ 520	$ 1,416,158

Transfers out of Level 3 into Level 2 were made in 2011 due to the availability of more accurate pricing data for a corporate bond security. At June 30, 2011, the fair value of this investment was estimated using unobservable inputs (i.e., extrapolated data, proprietary models, and indicative quotes) obtained from investment managers. At June 30, 2012, the fair value of this security was estimated using observable, market based bid evaluations obtained from Financial Times Interactive Data. The Corporation's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Expected Contributions – The Corporation expects to contribute $185.1 million to its Pension Plans, and $1.9 million to its Postretirement Plans during the year ended June 30, 2013 under the Corporation's stated funding policy. The Corporation also elected to make an additional contribution of $100 million to its Pension Plans in July 2012.

Expected Benefit Payments – The Corporation expects to pay the following for pension benefits, which reflect expected future service as appropriate, and expected postretirement benefits, before deducting the Medicare Part D subsidy.

	(In Thousands)		
	Pension Plans	**Postretirement Plans**	**Postretirement Medicare Part D Subsidy**
2013	$ 191,524	$ 7,765	$ 125
2014	202,633	8,036	123
2015	223,758	8,319	119
2016	246,134	8,508	114
2017	272,488	8,639	107
Years 2018 - 2022	1,751,325	42,728	424

9. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was $103.2 million and $89.4 million for the years ended June 30, 2012 and 2011, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2012, that have initial or remaining lease terms in excess of one year:

	(In Thousands)
Years ending June 30:	
2013	$ 78,525
2014	66,498
2015	52,130
2016	43,616
2017	35,067
Thereafter	113,241
Total	$ 389,077

Guarantees – The Corporation entered into debt guarantees to finance equipment purchases and to finance or construct professional office buildings, including outpatient surgery centers, rehabilitation facilities, medical facilities and medical office buildings.

Multiple guarantees that existed as of June 30, 2012 are at the following levels:

Percentage Guaranteed by Corporation	Percentage Guaranteed by Others	Total Principal Amount (In Thousands)	Dollars Guaranteed by Corporation (In Thousands)
100%	0%	$ 5,985	$ 5,985
50%	50%	8,150	4,075
25%	75%	487	122
18.75%	81.25%	1,375	258
		$ 15,997	$ 10,440

Asset Retirement Obligations – The Corporation has conditional asset retirement obligations for certain fixed assets mainly related to the removal of asbestos contained within facilities and the removal of underground storage tanks.

A reconciliation of the asset retirement obligations at June 30 follows:

	2012 (In Thousands)	2011 (In Thousands)
Asset retirement obligation, beginning of year	$ 17,487	$ 18,735
Accretion	587	842
Liabilities incurred	877	27
Liabilities settled	(94)	(2,117)
Asset retirement obligation, end of year	$ 18,857	$ 17,487

Litigation

In September 2007, a Boise, Idaho jury awarded $58.9 million in damages to MRI Associates, an Idaho limited partnership (MRIA) against Saint Alphonsus Regional Medical Center and its subsidiary Saint Alphonsus Diversified Care, Inc. (collectively, "Saint Alphonsus"). The lawsuit involved Saint Alphonsus' withdrawal from the MRIA partnership. The jury award was reduced by the trial judge to $36.3 million, which was offset by the award of $4.6 million to Saint Alphonsus, the value of its partnership interest in MRIA. St. Alphonsus appealed and, in October 2009, the Idaho Supreme Court overturned the trial court decision and remanded the case for a new trial. The second trial was held during October 2011 with a jury awarding approximately $52 million in damages to MRIA. After Saint Alphonsus filed an objection, the trial court entered a second amended judgment indicating that the plaintiffs could execute 1 of 11 alternative judgments which vary in amount from approximately $20 million to $52 million. Saint Alphonsus continues to have an offset of $4.6 million plus 10% interest running from September 21, 2007. Saint Alphonsus filed a Notice of Appeal to the Idaho Supreme Court in May 2012, because the Corporation believes that the proof of damages is insufficient to sustain the jury's award under Idaho law. The Corporation recorded management's estimation for litigation expense of $20 million in the consolidated statement of operations and changes in net assets for the year ended June 30, 2007. As of June 30, 2012 and 2011, the liability is included in other long-term liabilities in the consolidated balance sheets in the event of an unfavorable resolution of this matter.

In June 2007, the Corporation was added to litigation pending in the United States District Court for the Eastern District of Michigan, alleging that certain hospitals in Southeastern Michigan conspired to suppress the wages of nurses over a period of five years. The plaintiffs brought the action on their own behalf and on behalf of all others similarly situated and seeking certification of the class. The complaint alleges that there was a direct agreement among the executives of defendant hospitals to suppress compensation and that they shared non-public compensation information, which had an anticompetitive effect on wages. The complaint specifically references St. Mary Mercy Hospital in Livonia, Michigan and St. Joseph Mercy Oakland in Pontiac, Michigan. Discovery is complete. Defendants' motion for summary judgment, which has been pending since June 2009, was decided on March 22, 2012. The Judge granted summary judgment on Count I (conspiracy to hold down wages), but denied it on Count II (exchange of compensation-related information leading to reduced wages). Plaintiffs' motion to certify a class has also been pending since June 2009 and has not yet been decided. If the outcome is adverse to the Corporation, the Corporation could potentially incur material damages or other financial consequences. At this time, it is premature to assess the likely course or outcome of this litigation.

The Corporation is involved in other litigation and regulatory investigations arising in the course of doing business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future consolidated financial position or results of operations.

10. FAIR VALUE MEASUREMENTS

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include cash, cash equivalents, marketable securities, commingled funds, securities lending collateral, and derivatives. Defined benefit retirement plan assets are measured at fair value on an annual basis. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets
- Quoted prices for identical or similar instruments in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Level 3 – Unobservable inputs that cannot be corroborated by observable market data

Valuation Methodologies – Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents – The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets.

Commercial Paper – The fair value of commercial paper is based on amortized cost. Commercial paper is designated as Level 2 investments with significant observable inputs including security cost, maturity and credit rating. Commercial paper is classified as either cash and cash equivalents or marketable securities in the consolidated balance sheets depending upon the length to maturity when purchased.

Security Lending Collateral – The security lending collateral is invested in a Northern Trust sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value amounts of the commingled collateral fund are based on quoted market prices.

Marketable Securities – The fair value amounts of marketable securities, included in investments and assets limited or restricted as to use in the consolidated balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Commingled Funds – The Corporation invests in various commingled funds that are included in investments and assets limited or restricted as to use in the consolidated balance sheets. These funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements.

The Corporation classifies its marketable securities and commingled funds as trading securities. Holding (losses) gains included in the excess of revenue over expenses for the years ending June 30, 2012 and 2011 were ($44.3) million and $155.2 million, respectively.

Other Investments – The Corporation accounts for certain other investments using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of "fund-of-funds" and direct fund investment resulting in diversified multi-strategy, multi-manager investments approach. Some of these are developed by investment managers specifically for the Corporation's use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equities, fixed income securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds' year-end. Management's estimates of the fair values of these investments are based on information provided by the third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Investment managers meet with the Corporation's Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. The balance of these investments at June 30, 2012 and 2011 was $999.8 million and $965.7 million, respectively. Unfunded capital commitments related to private equity investments totaled $89.1 million and $55.0 million at June 30, 2012 and 2011, respectively.

Cash, cash equivalents, marketable securities, commingled funds and other investments totaled $5,308 million and $4,831 million at June 30, 2012 and 2011, respectively.

Derivatives – The fair value of the Corporation's derivatives, which are mainly interest rate swaps, are estimated utilizing the terms of the swaps and publicly available market yield curves along with the Corporation's nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

The following tables present information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded at June 30:

	2012 (In Thousands)			
Assets:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 1,295,525	$ 55,634	$ -	$ 1,351,159
Security lending collateral	-	130,702	-	130,702
Marketable securities:				
Equity securities	533,221	463	1,472	535,156
Debt securities:				
Government and government agency obligations	-	405,740	-	405,740
Corporate bonds	-	273,845	1,114	274,959
Asset backed securities	-	76,537	559	77,096
Other	-	6,795	-	6,795
Mutual funds:				
Equity mutual funds	199,080	39	-	199,119
Fixed income mutual funds	157,334	3,338	-	160,672
Real estate investment funds	7,173	-	-	7,173
Other	2,403	2,363	-	4,766
Total marketable securities	899,211	769,120	3,145	1,671,476
Commingled funds	-	1,167,130	109,165	1,276,295
Interest rate swaps	-	27,183	-	27,183
Total Assets	$ 2,194,736	$ 2,149,769	$ 112,310	$ 4,456,815
Liabilities:				
Interest rate swaps	$ -	$ 205,111	$ -	$ 205,111

	2011 (In Thousands)			
Assets:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 1,097,899	$ 40,695	$ -	$ 1,138,594
Security lending collateral	-	149,641	-	149,641
Marketable securities:				
Equity securities	589,498	1,913	500	591,911
Debt securities:				
Government and government agency obligations	-	335,433	116	335,549
Corporate bonds	-	285,643	2,467	288,110
Asset backed securities	-	77,517	715	78,232
Other	-	13,620	-	13,620
Mutual funds:				
Equity mutual funds	181,670	-	-	181,670
Fixed income mutual funds	46,438	-	-	46,438
Real estate investment funds	6,658	-	-	6,658
Other	1,540	-	-	1,540
Total marketable securities	825,804	714,126	3,798	1,543,728
Commingled funds	-	1,168,069	8,600	1,176,669
Interest rate swaps	-	33,422	-	33,422
Total Assets	$ 1,923,703	$ 2,105,953	$ 12,398	$ 4,042,054
Liabilities:				
Interest rate swaps	$ -	$ 107,926	$ -	$ 107,926

There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2012 or 2011.

The following table summarizes the changes in Level 3 assets for the years ended June 30:

	(In Thousands)					
	Equity Securities	Government and Government Agency Obligations	Corporate Bonds	Asset Backed Securities	Commingled Funds	Total
Balance at July 1, 2010	$ -	$ -	$ -	$ -	$ -	$ -
Realized gain	-	-	2	1	-	3
Unrealized (loss) gain	(35)	24	58	21	367	435
Purchases	535	92	2,436	885	8,233	12,181
Settlements	-	-	(29)	(192)	-	(221)
Balance at June 30, 2011	$ 500	$ 116	$ 2,467	$ 715	$ 8,600	$ 12,398
Realized gain	35	-	(7)	44	-	72
Unrealized (loss) gain	(35)	-	(81)	-	2,361	2,245
Purchases	972	-	992	-	98,227	100,191
Settlements	-	-	-	(200)	-	(200)
Transfers	-	(116)	(2,257)	-	(23)	(2,396)
Balance at June 30, 2012	$ 1,472	$ -	$ 1,114	$ 559	$ 109,165	$ 112,310

Investments in Entities that Calculate Net Asset Value per Share: The Corporation holds shares or interests in investment companies at year-end, included in commingled funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. There were no unfunded commitments as of June 30, 2012 or 2011. The fair value and redemption rules of these investments are as follows:

	Investments Held at June 30, 2012		
(In thousands)	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Equity funds	249,592	Monthly, quarterly, semiannually	30-95 days
Fixed income funds	965,096	Monthly	5 days
Total	$ 1,214,688		

	Investments Held at June 30, 2011		
(In thousands)	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Equity funds	8,600	Monthly, quarterly, semiannually	30-95 days
Fixed income funds	953,533	Monthly	5 days
Total	$ 962,133		

The equity fund category includes investments in funds that invest both long and short, primarily in U.S. common stocks. Management of the fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The fixed income fund category invests in financial instruments of U.S. and non-U.S. entities, primarily bonds, notes, bills, debentures, currencies, and interest rate and derivative products. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The composition of investment returns included in the consolidated statement of operations and changes in net assets for the years ended June 30 is as follows:

	2012	2011
	(In Thousands)	
Dividend, interest income and other	$ 74,258	$ 79,703
Realized gain, net	68,360	138,901
Realized equity loss, other investments	(2,258)	(1,432)
Change in net unrealized (loss) gain on investments	(146,640)	279,942
Total investment return	$ (6,280)	$ 497,114
Included in:		
Operating income	$ 13,300	$ 6,454
Nonoperating items	(19,159)	483,550
Changes in restricted net assets	(421)	7,110
Total investment return	$ (6,280)	$ 497,114

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets net of allowances for uncollectible promises to give.

Unconditional promises to give consist of the following at June 30:

	2012	2011
	(In Thousands)	
Amounts expected to be collected in:		
Less than one year	$ 8,632	$ 9,049
One to five years	13,896	11,688
More than five years	3,676	3,841
	26,204	24,578
Discount to present value of future cash flows	2,094	1,885
Allowance for uncollectible amounts	2,301	2,566
Total unconditional promises to give, net	$ 21,809	$ 20,127

Patient Accounts Receivable, Estimated Receivables from Third-Party Payors and Current Liabilities – The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Long-Term Debt – The carrying amounts of the Corporation's variable rate debt approximate their fair values. The fair value of the Corporation's fixed rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed rate long-term revenue and refunding bonds was $2,389 million and $1,576 million at June 30, 2012 and 2011, respectively. The related carrying value of the fixed rate long-term revenue and refunding bonds was $2,162 million and $1,509 million at June 30, 2012 and 2011, respectively. The fair values of the remaining fixed rate capital leases, notes payable to banks, and mortgage loans are not materially different from their carrying values.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments – In the normal course of business, the Corporation is exposed to market risks, including the effect of changes in interest rates and equity market volatility. To manage these risks the Corporation enters into various derivative contracts, primarily interest rate swaps. Interest rate swaps are used to manage the effect of interest rate fluctuations.

Management reviews the Corporation's hedging program, derivative position, and overall risk management on a regular basis. The Corporation only enters into transactions it believes will be highly effective at offsetting the underlying risk.

Interest Rate Swaps – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation's variable interest rate debt, variable rate leases and a fixed income investment portfolio. Cash payments on interest rate swaps totaled $17.3 million and $15.7 million for the years ended June 30, 2012 and 2011, respectively and are included in nonoperating income.

Certain of the Corporation's interest rate swaps contain provisions that give certain counterparties the right to terminate the interest rate swap if a rating is downgraded below specified thresholds. If a ratings downgrade threshold is breached, the counterparties to the derivative instruments could demand immediate termination of the swaps. Such termination could result in a payment from the Corporation or a payment to the Corporation depending on the market value of the interest rate swap.

Certain of the Corporation's interest rate swaps are secured by $89.4 million and $30.6 million of collateral included in prepaid expenses and other current assets in the Corporation's consolidated balance sheets at June 30, 2012 and 2011, respectively.

Investment Collars – The Corporation engaged in a downside risk mitigation strategy employing an equity collar structure utilizing a combination of equity call and put options. This hedging strategy was based on investment portfolio exposure to long only equities and contained no leverage. This investment collar expired in July 2010.

Effect of Derivative Instruments on Excess of Revenue over Expenses - The following table represents the effect derivative instruments had on the Corporation's financial performance for the years ended June 30:

Derivatives not designated as hedging instruments	Location of Net Gain (Loss) Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets	2012 (In Thousands) Amount of Net Gain (Loss) Recognized in Excess of Revenue over Expenses	2011
Excess of Revenue over Expenses:			
Interest rate swaps	Change in market value and cash payment on interest rate swaps	$ (114,468)	$ 13,554
Interest rate swaps	Investment income	1,087	206
Investment collars	Investment loss	-	(4,969)
		$ (113,381)	$ 8,791

Balance Sheet Effect of Derivative Instruments - The following table summarizes the estimated fair value of the Corporation's derivative financial instruments at June 30:

Derivatives not designated as hedging instruments	Consolidated Balance Sheet Location	2012 (In Thousands)	2011
Asset Derivatives:			
Interest rate swaps	Investments	$ 8,401	$ 6,356
Interest rate swaps	Other assets	18,782	27,066
Total asset derivatives		$ 27,183	$ 33,422
Liability Derivatives:			
Interest rate swaps	Other long-term liabilities	$ 205,111	$ 107,926

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of non-performance. At June 30, 2012 and 2011 an adjustment for non-performance risk reduced derivative assets by $1.1 million and $2.6 million and derivatives liabilities by $14.6 million and $3.0 million, respectively.

12. ENDOWMENTS

The Corporation's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Endowment net asset composition by type of fund at June 30 is as follows:

	2012 (In Thousands)			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Donor-restricted endowment funds	$ -	$ 438	$ 40,670	$ 41,108
Board-designated endowment funds	34,291	-	-	34,291
Total endowment funds	$ 34,291	$ 438	$ 40,670	$ 75,399

	2011 (In Thousands)			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Donor-restricted endowment funds	$ -	$ 446	$ 34,462	$ 34,908
Board-designated endowment funds	34,988	-	-	34,988
Total endowment funds	$ 34,988	$ 446	$ 34,462	$ 69,896

Changes in endowment net assets for the years ended June 30 include:

	(In Thousands)			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment net assets, July 1, 2010	$ 19,737	$ 464	$ 31,736	$ 51,937
Investment return:				
Investment gain	1,658	8	713	2,379
Change in net realized and unrealized gain and loss	3,964	373	1,820	6,157
Total investment return	5,622	381	2,533	8,536
Contributions	36	-	403	439
Appropriation of endowment assets for expenditures	(967)	(5)	-	(972)
Transfer to create a board designated endowment	10,560	-	-	10,560
Other	-	(394)	(210)	(604)
Endowment net assets, June 30, 2011	34,988	446	34,462	69,896
Investment return:				
Investment gain (loss)	1,477	7	(30)	1,454
Change in net realized and unrealized gain and loss	(1,651)	(10)	(391)	(2,052)
Total investment return	(174)	(3)	(421)	(598)
Contributions	91	-	636	727
Appropriation of endowment assets for expenditures	(624)	(5)	-	(629)
Acquisition of LUHS	-	-	6,671	6,671
Other	10	-	(678)	(668)
Endowment net assets, June 30, 2012	$ 34,291	$ 438	$ 40,670	$ 75,399

The table below describes endowment amounts classified as permanently restricted net assets and temporarily restricted net assets at June 30:

	2012	2011
	(In Thousands)	
Permanently restricted net assets:		
Hospital operations support	$ 17,537	$ 16,736
Medical program support	5,941	5,127
Scholarship funds	2,247	2,351
Research funds	8,241	3,433
Community service funds	5,496	5,764
Other funds	1,208	1,051
Total endowment funds classified as permanently restricted net assets	$ 40,670	$ 34,462
Temporarily restricted net assets:		
Term endowment funds	$ 127	$ 133
Other	311	313
Total endowment funds classified as temporarily restricted net assets	$ 438	$ 446

Funds with Deficiencies – Periodically the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 7, 2013, the date the consolidated financial statements were issued. The following subsequent events were noted:

Pension Funding – On July 2, 2012, the Corporation issued $100 million in commercial paper and used the proceeds to make contributions to its Pension Plans.

Liquidity Facilities – In July 2012, the Corporation renewed the Amended and Restated 2010 Revolving Credit Agreements with U.S. Bank National Association, which acts as an administrative agent for a group of lenders thereunder. The 2010 Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agrees to lend to the Corporation amounts that may fluctuate from time to time but, as of March 7, 2013, the amount available was $731 million. Amounts drawn under the 2010 Credit Agreements can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the $731 million, $150 million expires in July 2013, $110 million expires in July 2014, $256 million expires in July 2015 and $215 million expires in July 2016. In addition, in August 2012, the Corporation added a second general purpose facility of $200 million.

Commercial Paper – In October 2012, the Corporation increased its commercial paper program for authorized borrowings from $400 million to $600 million. However, no additional amounts were issued with the authorized increase.

Definitive Consolidation Agreement with Catholic Health East ("CHE") – Effective January 11, 2013, the Corporation and Catholic Health East ("CHE"), a Pennsylvania nonprofit corporation, entered into a definitive Consolidation Agreement, subject to regulatory approval and other closing conditions, which contemplates the consolidation of the Corporation and CHE into a unified Catholic national health system that will enhance their mission of service to people and communities across the United States. Transition and integration are ongoing, and it is anticipated that the transaction will close in May 2013. The Corporation has incurred approximately $1.4 million in consolidation costs during the six months ended December 31, 2012 as a result of the planned consolidation which are included in consolidation costs in the statement of operations and changes in net assets.

* * * *

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER PROGRAMS:			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
National Institutes of Health Programs			
Pass-Through Duke University, NIH/NLM, Toward Intelligent Display of Health Data: A Qualitative Study of Use Patterns — Saint Alphonsus Regional Medical Center, Boise	93.879	203-1070	$ 36,981
Pass-Through U.S. Department of Health and Human Services, National Institutes of Health, The George Washington University, The Ohio State University Research Foundation, Maternal-Fetal Medicine Units — Mount Carmel Health System, Columbus	93.865	60021133	3,340
Pass-Through U.S. Department of Health and Human Services, National Institutes of Health, Trustees of Boston University — Mount Carmel Health System, Columbus	93.865	5 U10 HD059207-02	2,730
Pass-Through Massachusetts General Hospital, National Institutes of Health, ‘Clinical Trial of Ceftiaxone in ALS’ — Saint Mary’s Health Care, Grand Rapids	93.853	5-U01NS049640-05	81,754
Pass-Through University Med Dentistry New Jersey, NINDS, Carotid Revascularization Endarterectory Versus Stenting Trial (CREST) — Saint Joseph Mercy Health System, Michigan Heart, Ann Arbor	93.853	R01NS0383384	7,475
Pass-Through Michigan State University, NIH: Implementing Sustainable Diabetes Prevention and Self-Management in Primary Care — Saint Joseph Mercy Health System, Ann Arbor	93.847	1R18DK082377-01A2	251,178
Pass-Through the University of Toledo, National Heart, Lung, and Blood Institute, Cardiovascular Outcomes in Renal Atherosclerotic Lesions (CORAL) — Saint Joseph Mercy Health System, Ann Arbor	93.837	UH01HL071556	155
Pass-Through Partners, NHLBI, Pre-Determine Cohort Study — Saint Joseph Mercy Health System, Michigan Heart, Ann Arbor	93.837	R06HL091069	37,200
Pass-Through U of M issued by National Heart, Lung and Blood Institute — St. Joseph Mercy Oakland, Pontiac	93.837	U01HL105218	29,894
ARRA - Pass-Through Massachusetts General Hospital, National Institute of Health, Trans-NIH Multi-Center Validation of Biomarkers for Motor Neuron Disease — Saint Mary’s Health Care, Grand Rapids	93.701	1RC1-NS068179-02	3,135
ARRA - Pass-Through Van Andel Institute, National Institute of Health, Trans-NIH Research Support — Saint Mary’s Health Care, Grand Rapids	93.701	RC1CA145402-01	8,797
Pass-Through Duke Corporation, NIH, Validating PROMIS Instruments in Congestive Heart Failure Patients Receiving a Heart Transplant — Saint Joseph Mercy Health System, Michigan Heart, Ann Arbor	93.701	41458	17,650
Pass-Through Seattle Institute, NIH, SCD-HeFT 10 Year Follow-Up — Saint Joseph Mercy Health System, Michigan Heart, Ann Arbor	93.701	1RC1HL100625	3,450
Pass-Through Iowa Oncology Research Association, Cancer Control — Mercy Medical Center-North Iowa, Mason City	93.399	5U10-CA035101-19	82,376

(Continued)

TRINITY HEALTH

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
Cancer Control, Cooperative Clinical Oncology — Saint Joseph Mercy Health System, Ann Arbor	93.399	5U10-CA063848-16	$ 1,411,330
Community Clinical Oncology Program, Ancillary Study Program — Saint Joseph Mercy Health System, Ann Arbor	93.399	U10-CA37377	19,419
Pass-Through U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute, Mount Sinai School of Medicine, Mount Carmel Health Palliative Care Services — Mount Carmel Health System, Columbus	93.399	0255-1411-4609	450
Pass-Through American College of Radiology, RTOG — Saint Alphonsus Regional Medical Center, Boise	93.395	N/A	2,450
Pass-Through Iowa Oncology Research Association, Cancer Control — Mercy Medical Center-North Iowa, Mason City	93.395	N/A	3,093
Pass-Through Multi-Care Health System, Support Function of Northwest Community Clinical Oncology Program — Saint Alphonsus Regional Medical Center, Boise	93.395	CA35281-24	4,950
Pass-Through Radiation Therapy Oncology Group, Research Grant Radiation Therapy — Saint Agnes Medical Center, Fresno	93.395	U10CA21661	5,320
Pass-Through Regents of University of Michigan, NIH, Southwest Oncology Group Operations Office Grant — St. Mary Mercy Hospital, Livonia	93.395	2U10CA32102	14,377
Subtotal National Institutes of Health Programs			2,027,504
Agency of Healthcare Research and Quality			
Pass-Through Duke University, DHHS/AHRQ , Workload effects on response time to life-threatening arrhythmias — Saint Alphonsus Regional Medical Center, Boise	93.226	203-1825	874
Subtotal of Agency Healthcare Research and Quality Programs			874
U.S. DEPARTMENT OF DEFENSE:			
Department of Army, Army Research and Material Command, TATRC, Telemedicine and Advanced Technology Research Center — Saint Alphonsus Regional Medical Center, Boise	12.420	W81XWH-04-010604	55,874
Department of Army, Army Research and Material Command, TATRC, Telemedicine and Advanced Technology Research Center — Saint Alphonsus Regional Medical Center, Boise	12.420	W81XWH-07-2-0077	170,502
Subtotal U.S. Department of Defense			226,376
Total Research and Development Cluster Programs			2,254,754
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (NON-RESEARCH):			
Pass-Through State of Michigan, Maternal and Child Health Services Block Grant HRSA/MCHB — St. Joseph Mercy Oakland, Pontiac	93.994	B04MC11171	2,988
Pass-Through State of Indiana, Maternal & Child Health Services Block Grant — Saint Joseph Regional Medical Center, South Bend	93.994	6 B04 MC 00292-06	68,676

(Continued)

TRINITY HEALTH

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
Pass-Through MDCH, Health Disparities Reduction & Minority Health Capacity Building Grant-Muskegon-Oceana County Health Disparities Coalition Reduction — Muskegon Community Health Project, Muskegon	93.991	20112181	$ 33,993
Pass-Through MDCH, Health Disparities Reduction & Minority Health Capacity Building Grant-Muskegon-Oceana County Health Disparities Coalition Reduction — Muskegon Community Health Project, Muskegon	93.991	20120749	32,678
Pass-Through Lakeshore Coordinating Council, Federal Block Grant — Hackley Life Counseling, Muskegon	93.959	N/A	315,810
Grants to Provide HIV/AIDS Outpatient Early Intervention Services (Ryan White - Title IIIB) — Saint Mary's Health Care, Grand Rapids	93.918	H76HA00110	509,922
Pass-Through Michigan Department of Community Health HIV/AIDS Care Formula Grants, Case Management (Ryan White - Title II) — Saint Mary's Health Care, Grand Rapids	93.917	X07HA00044	376,190
Pass-Through Michigan Department of Community Health, Ryan White Care Act Title II — Mercy Health Partners, Hackley Campus, McClees Clinic	93.917	X07HA00044	263,424
Pass-Through The City of Chicago Department of Public Health, HIV Emergency Relief Project Grants (Ryan White Program) — Loyola University Health System, Chicago	93.914	23782-1, 23782-2	403,264
Pass-Through Hancock County Memorial Hospital, HRSA Diabetes Grant — Mercy Medical Center - North Iowa, Mason City	93.912	D04RH12698-01-00	7,915
Pass-Through U.S. Department of Health and Human Services, HRSA, Ohio Department of Health, Ohio Hospital Association, Central Ohio Trauma System, Bioterrorism Hospital Preparedness Program at Diley Ridge Medical Center — Mount Carmel Health System, Colum	93.889	02560112RP0512	14,701
Pass-Through Maryland Department of Health & Mental Hygiene, Disaster Preparedness — Holy Cross Hospital, Silver Spring	93.889	N/A	72,997
Pass-Through Tri-County Emergency Medical Control Authority, Bioterrorism Hospital Preparedness Program — Saint Joseph Mercy Health System, Livingstor	93.889	N/A	1,267
Pass-Through Region 2 South DP. Def. Network, Bioterrorism Hospital Preparedness Program — Saint Joseph Mercy Health System, Saline	93.889	N/A	4,851
Pass-Through Region 2 South DP. Def. Network, Bioterrorism Hospital Preparedness Program — Saint Joseph Mercy Health System, Livonia	93.889	N/A	10,332
Pass-Through Region 2 South DP. Def. Network, Bioterrorism Hospital Preparedness Program — Saint Joseph Mercy Health System, Chelsea	93.889	N/A	11,127
Pass-Through State of Indiana, Health Resources and Services Administration Public Health and Social Services Emergency Fund, Bioterrorism Hospital Emergency Fund — Saint Joseph Regional Medical Center, South Bend	93.889	N/A	22,400
Pass-Through State of Indiana, Health Resources and Services Administration Public Health and Social Services Emergency Fund, Bioterrorism Hospital Emergency Fund — Saint Joseph Regional Medical Center, Plymouth	93.889	N/A	20,000
Pass-Through Ohio Department of Health, Ohio Hospital Association, Central Ohio Trauma System, Bioterrorism Hospital Preparedness Program at New Albany Facility — Mount Carmel Health System, Columbus	93.889	02560112RP0512	14,633

(Continued)

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
Pass-Through Ohio Department of Health, Ohio Hospital Association, Central Ohio Trauma System, Bioterrorism Hospital Preparedness Program — Mount Carmel Health System, Columbus	93.889	02560112RP0512	$ 69,043
Pass-Through Iowa Department of Public Health, DMAT Hospital Preparedness Program — Mercy Medical Center, Dubuque	93.889	5882BHP303	12,500
Pass-Through Black Hawk County Health Department, Hospital Preparedness Program and Pandemic Influenza Healthcare Preparedness — Mercy Medical Center, Dubuque	93.889	5882BHP109	10,170
Pass-Through Black Hawk County Health Department, Hospital Preparedness Program and Pandemic Influenza Healthcare Preparedness — Mercy Medical Center, Dubuque	93.889	5882BHP108	15,234
Pass-Through Iowa Department of Public Health, Hospital Preparedness Program — Mercy Medical Center, Clinton	93.889	5882BHP110	16,755
Pass-Through Illinois Department of Public Health, Hospital Preparedness and Bioterrorism Program — Loyola University Health System, Chicago	93.889	17281061	349,723
Pass-Through Illinois Department of Public Health, Hospital Preparedness and Bioterrorism Program — Loyola University Health System, Chicago	93.889	27281038	35,506
Pass-Through Idaho Healthcare System Preparedness Allotment X — Saint Alphonsus Medical Center, Nampa	93.889	820200896-03	62,522
Pass-Through State of Iowa Hospital Preparedness — Baum Harmon Mercy Hospital, Primghar	93.889	5882BHP39	10,083
Pass-Through State of Iowa Hospital Preparedness Program — Mercy Medical Center, Sioux City	93.889	5882BHP50	16,350
Pass-Through State of Iowa DMAT — Mercy Medical Center, Sioux City	93.889	5882BHP302	12,500
Congressionally-Mandated Health Information Technology Grants — Mercy Medical Center, Mason City	93.888	D1BRH20607	346,500
Pass-Through Lakeshore Coordinating Counsel, Federal Medicaid Grant — Hackley Life Counseling, Muskegon	93.778	610004	178,899
ARRA - Pass-Through HHS and Oakland Livingston Human Service Agency Early Head Start ARRA Expansion — St. Joseph Mercy Oakland, Pontiac	93.709	05SA0520/01	11,774
ARRA - Department of Health and Human Services, Capital Improvement Program — Saint Mary's Health Care, Grand Rapids	93.703	C81CS14508	396,006
Pass-Through Michigan Department of Human Services, Children's Trust Fund — St. Joseph Mercy Oakland, Pontiac	93.590	CTFDS-06-63001	3,431
Department of Health and Human Services, Idaho STARS QRIS grant (St. Alphonsus Early Learning Center) — Saint Alphonsus Regional Medical Center, Boise	93.575	EDK057-SB-002	8,463
Pass-Through Michigan Department of Human Services, CANCO, Zero to Three Secondary Prevention Grant (CM-F157) Healthy Start — St. Joseph Mercy Oakland, Pontiac	93.558	ZTT-10-63002	34,355

(Continued)

TRINITY HEALTH

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
ARRA — Equipment To Enhance Training for Health Professionals — NEPR — St Joseph Mercy Oakland, Pontiac	93.411	D76HP20540	$ 204,280
Pass-Through HRSA, Office of Rural Health Policy, Michigan Center for Rural Health, Small Rural Hospital Improvement Grant Program — Mercy Health Partners — Lakeshore Campus, Muskegon	93.301	N/A	5,615
Pass-Through Iowa Department of Health Small Hospital Improvement Program Grant — Mercy Medical Center — New Hampton	93.301	5882SH50	7,323
Pass-Through State of Iowa — Small Rural Hospital Improvement Grant — Mercy Medical Center, Dubuque	93.301	5882SH51	7,323
Pass-Through State of Nebraska, Small Hospital Improvement Grant (SHIP) — Oakland Mercy Hospital, Oakland NE	93.301	N/A	8,631
Pass-Through State of Iowa Small Rural Hospital Improvement Grant Program — Baum Harmon Mercy Hospital, Primghar	93.301	5882SH04	7,323
Pass-Through State of Iowa Small Rural Hospital Improvement Grant Program — Mercy Medical Center, Sioux City	93.301	5881SH48	1,012
Pass-Through State of Michigan Office of Rural Health — Michigan Center for Rural Health — Mercy Hospital, Grayling	93.301	6H3HRH000400101	1,600
Cooperative Agreement between CDC and State of Idaho for Breast and Cervical Cancer Early Detection Program — Saint Alphonsus Regional Medical Center, Boise	93.283	HC539300	40,404
Pass-Through Michigan Public Health Institute, Michigan Stroke Registry and Quality Improvement Program, Paul Coverdell National Acute Stroke Registry Program — Saint Joseph Mercy Health System, Ann Arbor	93.283	N/A	19,500
Pass-Through Michigan Department of Community Health ‘Improving Colon Cancer Screening and Creating Sustainable Change‘ — Saint Mary’s Health Care, Grand Rapids	93.283	1U58DP002022-01	60,766
U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration, Coalition for a Drug Free Muskegon County — Muskegon Community Health Project, Muskegon	93.276	2H79SP013090-06	122,845
Department of Health and Human Services, SRSLY Drug Free Communities Support Program — Saint Joseph Mercy Health System, Chelsea	93.276	1H79SP018182-01	88,089
Pass-Through Midwest Rural Telemedicine Consortium, TeleMental Health Outreach Initiative — Mercy Medical Center-North Iowa, Mason City	93.243	SAMHSA SM059370	908
Pass-Through State of Iowa FLEX CAH Meaningful Use — Mercy Medical Center, Sioux City	93.241	SA37	955
Project Grants Health Services for the Homeless — Saint Mary’s Health Care, Grand Rapids	93.224	H80CS00031	487,414
Department of Health and Human Services, Telehealth Network Grant Program — Saint Alphonsus Regional Medical Center, Boise	93.211	H2AIT16611	154,794

(Continued)

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
U.S. Department of Health and Human Services, Admin for Children and Families, OFA — St. Joseph Mercy Oakland, Pontiac	93.086	90FE0099	$ 168,125
Pass-Through U.S. Department of Health and Human Service, Admin for Children and Families, National Fatherhood Initiative, Healthy Start Fatherhood — St. Joseph Mercy Oakland, Pontiac	93.086	90-FB-0001	12,144
Pass-Through U.S. Department of Health and Human Services, Region 7 Medical Bio-Defense Network — Mercy Hospital, Grayling	93.069	CDC-RFA-TP09-902-H1N109	4,891
ARRA - Pass-Through Maryland Department of Aging, Living Well: Take Charge of Your Health — Holy Cross Hospital, Silver Spring	93.053	ARRA HHS-2010-AOA-RA-1003	20,000
Total U. S. Department of Health and Human Services (Non-research)			5,200,924
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass-Through Michigan Department of Community Health, Housing Opportunities for Persons with AIDS — Hackley Hospital, Muskegon	14.241	MIH07/08/09-F999	55,187
Pass-Through City of Nampa CDBG Grant Meals on Wheels Program — Saint Alphonsus Medical Center, Nampa	14.218	826000231	31,300
Pass-Through Eastern Washington University Idaho Infant Mental Endorsement — Saint Alphonsus Regional Medical Center, Boise	14.218	165	2,600
Section 8 Housing Assistance Payments Program — Trinity Senior Living Communities, Livonia	14.195	N/A	611,816
Supportive Housing for the Elderly (Section 202) — Trinity Senior Living Communities, Livonia	14.157	N/A	3,531,296
Total U. S. Department of Housing and Urban Development			4,232,199
STUDENT FINANCIAL AID CLUSTER PROGRAMS:			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Department of Health and Human Services, Scholarships for Disadvantaged Students — Mount Carmel College of Nursing, Columbus	93.925	T08HP22270	2,000
Nursing Student Loans (NSL) — Mount Carmel College of Nursing, Columbus	93.364	N/A	92,300
Nurse Faculty Loan Program (NFLP) — Mount Carmel College of Nursing, Columbus	93.264	N/A	44,000
Subtotal U.S. Department of Health and Human Services			138,300
U.S. DEPARTMENT OF EDUCATION:			
Federal Pell Grant Program — Mount Carmel College of Nursing, Columbus	84.063	N/A	782,034
Federal Family Education Loan Program (FFELP) — Mount Carmel College of Nursing, Columbus	84.032	N/A	7,355,122
Federal Supplemental Education Opportunity Grants (FSEOG) — Mount Carmel College of Nursing, Columbus	84.007	N/A	49,637
Subtotal U.S. Department of Education			8,186,793
Total Student Financial Aid Cluster Program			8,325,093

(Continued)

TRINITY HEALTH

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
U.S. DEPARTMENT OF JUSTICE			
JAG Program Cluster:			
Pass-Through Ohio Office of Criminal Justice Services, Edward Byrne Justice Assistance Grant Formula Program, Mount Carmel Health Crime and Trauma Assistance Program Children Affected by Violence — Mount Carmel Health System, Columbus	16.738	2010/2011 JG-D01-6331	$ 48,073
Pass-Through U.S. Department of Justice, Bureau of Justice Assistance, Ohio Office of Criminal Justice Services, Edward Byrne JAG Program, Sexual Assault/Violence Against Women Initiative, Mount Carmel Health Crime and Trauma Assistance Program — Mount Ca	16.738	2010 JG-D01-6680	34,857
Subtotal JAG Program Cluster			82,930
Pass-Through Iowa Chapter Children's Advocacy, National Children's Alliance Fund — Mercy Medical Center, Sioux City	16.758	4-SIOU-IA-SA12	4,608
Pass-Through Iowa Chapter Children's Advocacy, National Children's Alliance Fund — Mercy Medical Center, Sioux City	16.758	4-SIOUX-IA-SA11	4,659
Pass-Through Children's Healthcare, National Children's Alliance Fund — Mercy Medical Center, Sioux City	16.758	NCA Net	1,312
Pass-Through U.S. Department of Justice, Office on Violence Against Women/Ohio Office of Criminal Justice Services/Violence Against Women Act Subgrant, Mount Carmel Health Crime & Trauma Assistance Program Sexual Assault Initiative — Mount Carmel Health Sy	16.588	2010/2011-WF-VA5-V521	29,176
Pass-Through State of Iowa, Crime Victim Compensation Program — Mercy Medical Center, Sioux City	16.576	N/A	14,900
Pass-Through U.S. Department of Justice, Office for Victims of Crime, State of Ohio Attorney General, Victims of Crime Act Grant, Mount Carmel Health Crime and Trauma Assistance Program — Mount Carmel Health System, Columbus	16.575	2011/2012 VAGENE479	63,811
Pass-Through Children's Healthcare, National Children's Alliance Fund — Mercy Medical Center, Sioux City	16.547	63-1044781	243
Pass-Through Iowa Internet Crimes Against Children Task Force — Mercy Medical Center, Sioux City	16.543	N/A	1,747
Pass-Through Woodbury County DEC, Siouxland Human Investment Partnership, Office of Juvenile Justice and Delinquency Prevention Drug Endangered Children Grant — Mercy Medical Center, Sioux City	16.541	10-DEC-19208	4,894
Total U.S. Department of Justice			208,280
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through State of Iowa, Disaster # 1998 Public Assistance - Flood Relief — Mercy Medical Center, Sioux City	97.036	193-UADIN-00	18,043
Total U.S. Department of Homeland Security			18,043

(Continued)

TRINITY HEALTH

CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Agency or Pass-Through Identification Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
SNAP Program Cluster			
Pass-Through U.S. Department of Agriculture, Michigan Department of Human Services, Food Stamp Outreach Program — Muskegon Community Health Project, Muskegon	10.561	ADMIN-12-99020	$ 55,889
Subtotal SNAP Program Cluster			55,889
Pass-Through U.S. Department of Agriculture, Michigan Department of Human Services, Food Stamp Outreach program — Muskegon Community Health Project, Muskegon	10.580	ADMIN-11-99020	20,067
Pass-Through State of Idaho, Child and Adult Care Food Program (CACFP) — Saint Alphonsus Regional Medical Center, Boise	10.558	N/A	13,692
Pass-Through California Department of Agriculture, Adult Day Care Food Program — Saint Agnes Medical Center, Fresno	10.558	10-5039-1N	6,589
Pass-Through Kent County Department of Community Health, Special Supplemental Food Program for Women, Infants and Children — Saint Mary's Health Care, Grand Rapids	10.557	XX4W1006	82,528
Total U.S. Department of Agriculture			178,765
U.S. DEPARTMENT OF TRANSPORTATION:			
Highway Safety Cluster:			
Pass-Through State of Iowa, Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant — Mercy Medical Center, Sioux City	20.602	PAP 11-410, Task 49	3,037
Pass-Through State of Iowa, Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant — Mercy Medical Center, Sioux City	20.602	PAP 11-405, Task 06	1,936
Pass-Through State of Iowa, Occupant Protection Incentive Grant — Mercy Medical Center, Sioux City	20.602	PAP 12-405, Task 07	1,956
Pass-Through State of Iowa, Alcohol Incentive Grant — Mercy Medical Center, Sioux City	20.601	PAP 12-410, Task 49	8,520
Total U.S. Department of Transportation (Highway Safety Cluster)			15,449
TOTAL FEDERAL AWARDS			$20,433,507

(Concluded)

NOTES TO THE CONSOLIDATED SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

1. BASIS OF ACCOUNTING

The accompanying Consolidated Supplemental Schedule of Expenditures of Federal Awards is presented in accordance with the U.S. Office of Management and Budget (OMB) *Circular A-133* and is prepared using the accrual basis of accounting.

The Corporation's consolidated financial statements include the operations of Mercy Health System of Chicago and Subsidiaries (MHSC) for the three months ended June 30, 2012. MHSC reported total expenditures of federal awards of $48,120,391 for the three-month period ended June 30, 2012. Included in these total expenditures is $48,080,671, which represents the outstanding mortgage balances insured under the Federal Housing Administration's (FHA) Section 242 Hospital Mortgage Insurance Program. The accompanying Consolidated Supplemental Schedule of Expenditures of Federal Awards does not include the federal grant activity of MHSC because the federal expenditures of MHSC were included in a separate audit report in accordance with *OMB Circular A-133*.

2. HOUSING AND URBAN DEVELOPMENT HOUSING ASSISTANCE PAYMENT CONTRACTS

Saint Joseph's Tower, Inc. (the "Tower") is a subsidiary of Trinity Continuing Care Services (TCCS). TCCS is a subsidiary of the Corporation. Included in the Consolidated Supplemental Schedule of Expenditures of Federal Awards, under the Catalog of Federal Domestic Assistance (CFDA) number 14.195, is $611,816 of its revenues in the year ended June 30, 2012, from the U.S. Department of Housing and Urban Development (HUD) under the terms of the Housing Assistance Payment contracts. Also included, under the CFDA number 14.157, Supportive Housing for the Elderly (Section 202), is the mortgage payable balance of $3,531,296, which is guaranteed by HUD.

3. SUBRECIPIENTS

Of the federal expenditures included in the Consolidated Supplemental Schedule of Expenditures of Federal Awards, the Corporation provided federal awards to subrecipients for the year ended June 30, 2012 as follows:

Program Title	Federal CFDA Number	Amount
U.S. Department of Health and Human Services:		
Cancer Control, Cooperative Clinical Oncology — Saint Joseph Mercy Health System, Ann Arbor	93.399	$ 409,101
Community Clinical Oncology Program, Ancillary Study Program — Saint Joseph Mercy Health System, Ann Arbor	93.399	7,356
Pass-Through Michigan Dept. of Human Services, CANCO, Zero to Three Secondary Prevention Grant (CM-F157) Healthy Start — St. Joseph Mercy Oakland, Pontiac	93.558	17,832
U.S. Department of Health and Human Services, Admin for Children and Families, OFA — St. Joseph Mercy Oakland, Pontiac	93.086	44,870
Pass-Through Midwest Rural Telemedicine Consortium, TeleMental Health Outreach Initiative — Mercy Medical Center-North Iowa, Mason City	93.241	73
Total amount provided to subrecipients		$ 479,232

******

Deloitte & Touche LLP
200 Renaissance Center
Suite 3900
Detroit, MI 48243-1300
USA

Tel: +1 313 396 3000
Fax: +1 313 396 3618
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Trinity Health
Livonia, Michigan

We have audited the consolidated financial statements of Trinity Health and subsidiaries (the "Corporation") as of and for the year ended June 30, 2012, and have issued out report thereon dated September 26, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Saint Joseph's Tower (the "Tower"), a wholly owned subsidiary of Trinity Continuing Care Services, and Mercy Health System of Chicago and Subsidiaries (MHSC), both of which are wholly owned subsidiaries of the Corporation, as described in our report on the Corporation's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Corporation, the U.S. Government Accountability Office, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

September 26, 2012

Deloitte.

Deloitte & Touche LLP
200 Renaissance Center
Suite 3900
Detroit, MI 48243-1300
USA

Tel: +1 313 396 3000
Fax: +1 313 396 3618
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

To the Board of Directors of
Trinity Health
Livonia, Michigan

Compliance

We have audited the compliance of Trinity Health and subsidiaries (the "Corporation") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (June 2012) that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Corporation's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit. We did not audit the schedule of expenditures of federal awards of Saint Joseph's Tower (the "Tower"), a wholly owned subsidiary of Trinity Continuing Care Services, a wholly owned subsidiary of the Corporation, which reported federal awards of $4,143,112 for the year ended June 30, 2012. Those funds were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Tower, is based solely on the report of other auditors.

The Corporation's consolidated financial statements include the operations for the three-month period ended June 30, 2012 of Mercy Health System of Chicago and Subsidiaries (MHSC), which received $48,120,391 in federal awards for the three-month period ended June 30, 2012, which is not included in the Corporation's Consolidated Supplemental Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of MHSC because they engaged other auditors to perform a separate audit in accordance with *OMB Circular A-133* and the Department of Housing and Urban Development requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* ("*OMB Circular A-133*"). Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Corporation's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2012-1, 2012-3, 2012-4, and 2012-7.

Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2012-1, 2012-2, and 2012-4 through 2012-7.

The Corporation's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Corporation's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the Corporation, the U.S. Government Accountability Office, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

March 7, 2013

TRINITY HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_yes	_X_ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_yes	_X_ none reported
Noncompliance material to the consolidated financial statements noted?	_yes	_X_ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_yes	_X_ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_yes	_X_ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of *OMB Circular A-133*?	_X_ yes	_no

The Corporation's major programs were:

Name of Federal Program or Cluster	CFDA Number
Research and Development Cluster	93.226, 93.395, 93.399, 93.701, 93.837, 93.847, 93.853, 93.865, 93.879, 12.420
National Bioterrorism Hospital Preparedness Program	93.889
Section 8 Project-Based Cluster	14.195
Student Financial Aid Cluster	84.007, 84.032, 84.063, 93.264, 93.364, 93.925
Consolidated Health Centers	93.224
Supportive Housing for the Elderly	14.157
Specially Selected Health Projects	93.888
HIV Care Formula Grants	93.917
ARRA-Health Center Integrated Services Development Initiatives	93.703
HIV Emergency Relief Project Grants	93.914
Block Grants for Prevention and Treatment of Substance Abuse	93.959
ARRA - Equipment to Enhance Training for Health Professionals	93.411
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918

SECTION I — SUMMARY OF AUDITORS' RESULTS (CONTINUED)

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as a low-risk auditee? __yes X no

SECTION II — FINANCIAL STATEMENT FINDINGS SECTION

No matters were considered reportable.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

FINDING 2012-1

Federal Program Information

Name	CFDA	Contract Numbers
Pass-Through American College of Radiology, RTOG — Saint Alphonsus Regional Medical Center, Boise	93.395	N/A
Pass-Through Idaho Healthcare System Preparedness Allotment X — Saint Alphonsus Medical Center, Nampa	93.889	820200896-03

Condition: Certain allowable expenditures were incurred and properly reported to the granting agency in fiscal year 2011 but were excluded from the FY2011 Consolidated Schedule of Expenditures of Federal Awards. Such amounts were initially reported on the FY2012 Consolidated Schedule of Expenditures of Federal Awards; however they have been correctly removed from the FY2012 expenditures.

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation): Subpart C, §___.300 (d) of OMB Circular A-133 states that recipients of federal grant funds must prepare financial statements, including the Schedule of Expenditures of Federal Awards, in accordance with §___.310.

Subpart C, §___.310 (b) (3) of OMB Circular A-133 requires the Schedule of Expenditures of Federal Awards to provide the total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available.

Effect: The granting or cognizant agency could request the restatement of the FY2011 Consolidated Schedule of Expenditures of Federal Awards or impose other restrictions.

Cause: Lack of appropriate policies and procedures to ensure that costs charged to the grant are reported on the Consolidated Schedule of Expenditures of Federal Awards in the period incurred.

Questioned Costs: None

Context: During the expenditure cutoff testing procedures at Saint Alphonsus Health System it was noted that expenditures of $25,350 and $6,176 for CFDAs 93.395 and 93.889, respectively, were incurred FY2011. The expenditures were incurred within the respective grant periods and are allowable under the terms of the grants.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION (CONTINUED)

Recommendation: Management should implement policies and procedures to ensure that expenditures pertaining to approved grants are recognized and reported in the period incurred in accordance with generally accepted accounting principles in the United States of America.

Views of Responsible Officials and Planned Corrective Actions: The American College of Radiology pays the hospital for services performed by the hospital and approved for payment by the College. The costs referred to in the finding were incurred in the prior year, but approval was not recognized by the hospital until payment was received. By March 31, 2013, Saint Alphonsus Health System Accounting Department will develop a system to track costs submitted to the College and reconcile payments prior to completing the Consolidated Schedule of Expenditures of Federal Awards each year.

Contact Person*:* Dave Birch, Director of Reimbursement and Budgeting, Saint Alphonsus Health System, +1 208 367 2141

FINDING 2012-2

Federal Program Information

Name	CFDA	Contract Numbers
Department of Army, Army Research and Material Command, TATRC, Telemedicine and Advanced Technology Research Center — Saint Alphonsus Regional Medical Center, Boise	12.420	W81XWH-07-2-0077

Condition: The auditor noted during allowable cost testing that one transaction totaling $340 included charges of $76 for unallowed expenditures. The amount of $76 was initially reported on the FY2012 Consolidated Supplemental Schedule of Expenditures of Federal Awards; however such amounts have been correctly removed from the FY2012 expenditures and the amount credited back to the grant.

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation): According to OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, unallowable costs may not be charged to federal awards.

Effect: The granting or cognizant agency could reduce the amount of future grant awards or impose additional restrictions on such future awards.

Cause: In discussions with the grant administrator, the auditor became aware that OMB Circular A-122, Attachment B had not been disseminated to the grant personnel, and as a result, the staff charging time to the award was not aware of all unallowable costs.

Questioned Costs: None

Context: During the allowable cost procedures at Saint Alphonsus Regional Medical Center, Boise, it was noted that one of the 60 selections for testing in the amount of $340 included $76 of unallowable costs.

Recommendation: Management should ensure that OMB Circular A-122 Attachment B is disseminated to all those who charge time to or manage federal awards. Additionally, training on unallowable costs should be held.

Views of Responsible Officials and Planned Corrective Actions: Unallowed costs were included in expenditures reimbursed by grant funds due to the lack of knowledge of the exclusion of these costs from the grant. As of December 20, 2012, the grant manager and accounting staff have been made aware that the inclusion of these costs is unallowable and have revised the report to the grantor to exclude these costs. The exclusions related to unallowable costs will be reemphasized to grant managers and accounting staff each year in the annual Trinity Health federal awards compliance training.

Contact Person: Dave Birch, Director of Reimbursement and Budgeting, Saint Alphonsus Health System, +1 208 367 2141

FINDING 2012-3

Federal Program Information

Name	CFDA	Contract Numbers
Pass-Through Illinois Department of Public Health, Hospital Preparedness and Bioterrorism Program — Gottlieb Memorial Hospital, Chicago	93.889	27281038

Condition: Reimbursement certifications were not submitted by the 15th of the month for the preceding month of the grant period for the months of July 2011, August 2011, and October 2011 through January 2012. The reimbursement certifications were submitted timely for the remaining months of the grant period.

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation): Per section 4.3 of grant agreement #27281038, "The Grantee is required to complete and submit a reimbursement certification by the 15^{th} of the month for the preceding month of the grant period, regardless of whether or not expenditures are being claimed using the Reimbursement Certification Form provided by the Department."

Effect: Reimbursement certifications were not submitted by the 15th of the month for the preceding month of the grant period for the months of July 2011, August 2011, and October 2011 through January 2012.

Cause: The employee assigned to manage the grant was not aware of the reporting requirement.

Questioned Costs: None

Context: During the cash management compliance testing procedures at Gottlieb Memorial Hospital, it was noted that reimbursement certificates tested were not submitted by the 15^{th} of the month for the preceding month as required by the grant agreement.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION (CONTINUED)

Recommendation: Gottlieb Memorial Hospital should institute formal policies and procedures to ensure timely submissions of the reimbursement certification form.

Views of Responsible Officials and Planned Corrective Actions: Effective January 2013, the finance department at Loyola University Health System (LUHS) will support grants administration for Gottlieb Memorial Hospital. To ensure that reimbursement certifications are submitted in accordance with the State of Illinois' reporting requirements, the finance department will integrate Gottlieb Hospital's Preparedness and Bioterrorism Program into the review process established for other LUHS grants. The Director of Environment Safety will complete the certification forms on a monthly basis and forward them to finance by the sixth-business day of the month. The senior financial analyst responsible for the grant accounting function will review and submit the forms on a timely basis.

Contact Person: Jimena A Villamor, Manager, Accounting, Loyola University Health System +1 708 216 5942

FINDING 2012-4

Federal Program Information

Name	CFDA	Contract Numbers
Pass-Through State of Indiana, Health Resources and Services Administration Public Health and Social Services Emergency Fund - Bioterrorism Hospital Emergency Fund - Saint Joseph Regional Medical Center, South Bend	93.889	N/A
Pass-Through State of Indiana, Health Resources and Services Administration Public Health and Social Services Emergency Fund - Bioterrorism Hospital Emergency Fund - Saint Joseph Regional Medical Center, Plymouth	93.889	N/A

Condition: Equipment has been purchased with grant funds but a physical inventory of equipment has not been taken at least once in the last two years and reconciled to the equipment records.

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation): Under OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (2 CFR section 215.34), a physical inventory of equipment shall be taken and the results reconciled to the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. Additional requirements pertaining to the tracking and physical inspection of funded items exist under the terms of the grants.

Effect: Equipment purchased with grant funds could be lost or misappropriated and not identified, and therefore the required communications regarding such equipment would not be made to the granting agency.

Cause: Lack of familiarity with the requirement to perform a physical inventory of equipment purchased with federal grant funds at least once every two years.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION (CONTINUED)

Questioned Costs: None

Context: During the testing of equipment and real property management compliance requirements, it was noted that a physical inventory of federal grant-funded equipment has not been taken at least once in the last two years.

Recommendation: Management needs to implement procedures to ensure that a physical inventory of equipment purchased with federal award funds takes place at least once every two years and is reconciled to the fixed asset subsidiary ledger and maintain appropriate documentation to show this process was completed as required by OMB Circular A-110.

Views of Responsible Officials and Planned Corrective Actions: Effective in the fourth quarter of FY2013, the finance department will maintain a fixed asset listing of equipment funded by external grants. During the fourth quarter of each fiscal year, the finance department will submit the asset listing to the appropriate department leaders to validate the physical presence and location of the assets. Upon receipt of the listing, the department leader will perform an inventory count of such items, including the addition of any items not included on the listing, sign, date, and return the listing attesting to its presence and location to the finance department. The finance department will make changes to the fixed asset system as appropriate and will save all the signed listings in a central folder. The department leader will be responsible for the equipment maintenance and upkeep in conjunction with Bio-Med (clinical equipment), Information Systems (computer related), Plant Operations, and any other support services as necessary.

Contact Person: Wayne Noethe, Controller, Saint Joseph Regional Medical Center +1 574 472 6083

FINDING 2012-5

Federal Program Information

Name	CFDA	Contract Numbers
Pass-Through Illinois Department of Public Health, Hospital Preparedness and Bioterrorism Program — Loyola University Medical Center, Chicago	93.889	17281061

Condition: Certain account reconciliations within payroll were not prepared and/or reviewed in a timely manner and certain cash reconciliations needed to be changed and/or contained reconciling items that should have been investigated and resolved.

Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation): Subpart C, §___.300 (b) of OMB Circular A-133 states that recipients of federal grant funds must maintain internal control over federal programs that provides reasonable assurance that the recipient is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Effect: The granting or cognizant agency could reduce the amount of future grant awards or impose additional restrictions on such future awards.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION (CONTINUED)

Cause: Lack of appropriate policies and procedures to reconcile accounts completely and in a timely manner.

Questioned Costs: None

Context: During our interim controls testing, there were a number of reconciliations that were not prepared and/or reviewed in a timely manner. At year-end, we noted many more of these reconciliations were prepared and reviewed in a timely manner.

Recommendation: The reconciliation process is a key control related to financial reporting. Management should implement policies and procedures to ensure the timeliness of the preparation of and any related follow-up to reconciliations to ensure all necessary adjustments to the general ledger are made.

Views of Responsible Officials and Planned Corrective Actions: A risk ranking of accounts has been performed. All high risk accounts have been identified and standardization of the reconciliation template has aided the reconciliation review process. The finance department acknowledges that there are still some gaps in the timeliness of the monthly account reconciliation process due to staff turnover. A plan has been identified to complete all outstanding reconciliations by March 31, 2013. In addition, the finance department will establish subject matter experts and will implement cross-training among staff to ensure proper oversight of the reconciliations and timeliness thereof.

Contact Person: Jimena A. Villamor, Manager, Accounting, Loyola University Health System +1 708 216 5942

FINDING 2012-6

Federal Program Information

Name	CFDA	Contract Numbers
Pass-Through Illinois Department of Public Health, Hospital Preparedness and Bioterrorism Program — Loyola University Medical Center, Chicago	93.889	17281061

Condition: Certain purchase order approval limits were not enforced properly, instances of accruals not being properly stated were identified, and vendor master file additions and maintenance activities were not properly documented or reviewed.

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation): Subpart C, §___.300 (b) of OMB Circular A-133 states that recipients of grant award funds should maintain internal control over federal programs that provides reasonable assurance that the recipient is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Subpart C, §___.300 (d) of OMB Circular A-133 states that recipients of federal grant funds must prepare financial statements, including the schedule of expenditures of federal awards, in accordance with §___.310.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION (CONTINUED)

Effect: The granting or cognizant agency could reduce the amount of future grant awards or impose additional restrictions on such future awards.

Cause: Lack of appropriate policies and procedures, along with changes in managerial personnel, to ensure proper cutoff of expenditures and that expenditure authorization levels were followed.

Questioned Costs: None

Context: During our controls testing, there were instances of purchase orders being approved in excess of authority limits or by individuals who did not have approval authority. There was no review of the vendor invoice audit reports, which detail vendor maintenance activities. In addition, during our substantive testing, there were two invoices that related to services or goods received in FY2012 that were not properly accrued as of June 30, 2012. There was also one receipt of goods that was paid prior to June 30, 2012, but was still accrued as a liability as of June 30, 2012. Lastly, we noted that there were instances of new vendors being added to the vendor master file where no evidence was maintained to support that the vendor was verified as not on the excluded parties list nor were the W-9 forms retained.

Recommendation: We recommend that review procedures be enhanced to provide for the consistent evaluation of expenditure approval levels. Management should ensure that the appropriate controls are in place to properly evaluate accounts payable cutoff. Management should also evaluate the current policies and procedures related to updating the vendor master file to ensure that only appropriate vendors are added.

Views of Responsible Officials and Planned Corrective Actions: A new purchase order policy that matches Trinity Health's was implemented in October 2012. Authority limits and assignments have been reviewed in conjunction with this implementation.

As it relates to invoices to be properly accrued, a process to identify invoices requiring accrual is performed during the 5 day close cycle by the finance team. Various department managers are contacted during the close cycle to determine whether any non-purchase order invoices require accrual. Starting with the February 2013 close cycle, a memo will be circulated via email on the last day of the month to all department managers asking if they are in possession of any invoices to be accrued. In the past, this procedure was performed only during interim and year-end close cycle.

In addition to the review of the vendor audit report, in February 2013, the Loyola University Health System Corporate Controller added additional internal controls to vendor maintenance activities in order to strengthen the control environment. These procedures include a review of all appropriate documentation relating to vendor maintenance (i.e. evidence of an excluded providers list and completed W-9) prior to adding the vendor to the vendor master file and scanning to the vendor maintenance back up drive.

Contact Person: Jimena A. Villamor, Manager, Accounting, Loyola University Health System +1 708 216 5942

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION (CONTINUED)

FINDING 2012-7

Federal Program Information

Name	CFDA	Contract Numbers
ARRA - Capital Improvement Program — Saint Mary's Health Care, Grand Rapids	93.703	C81CS14508

Condition: During the testing of equipment and real property, it was noted that equipment purchased with federal award funds by Saint Mary's Health Care (SMHC) was housed at Cherry Street Health Center (Cherry Street), in accordance with the grant scope of services; however appropriate records have not been maintained to document the disposition of such equipment nor the transfer of the related federal award compliance requirements to Cherry Street. Further, SMHC did not assess whether appropriate control systems were used to safeguard the equipment or whether such equipment was adequately maintained. Although the maintenance and safeguarding of the equipment was intended to be transferred to Cherry Street, the appropriate paperwork was never completed nor filed with the granting agency.

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation): The A-102 Common Rule and OMB Circular A-110 require that equipment records shall be maintained, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Effect: Equipment purchased with grant funds could be lost or misappropriated and the required communications regarding such equipment may not be made to the granting agency.

Cause: Appropriate documentation surrounding the transaction was not completed with Cherry Street or filed with the granting agency.

Questioned Costs: None

Context: The condition described above includes the entire group of assets purchased under the grant agreement.

Recommendation: Management needs to implement procedures to ensure that equipment and real property records are maintained, appropriate control systems are used to safeguard equipment, and equipment is adequately maintained.

Views of Responsible Officials and Planned Corrective Actions: As of March 2013, SMHC has ensured that appropriate control systems are in place to safeguard the equipment at Cherry Street, which included obtaining maintenance and equipment disposal records from Cherry Street. SMHC has also finalized the property disposition paperwork with HRSA, responded to all HRSA requests and has resolved all outstanding issues related to funding for the purchase of dental and vision equipment under the grant.

Contact Person: Kyle Herrington, Financial Analyst +1 616 685 5035; Susan Hoppough, Director, Research & Innovation, and Grants Manager +1 616 685 5206

TRINITY HEALTH

Novi, Michigan

Summary Schedule of Prior-Year Audit Findings for the Year Ended June 30, 2011

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
2011	2011-1	The comparison of new vendors added to the vendor master file against the federal list of suspended and disbarred vendors is not documented, and a review of such procedures is not performed.		None	Procedures were corrected.
2011	2011-2	Equipment has been purchased with grant funds but a physical inventory of such equipment was not performed.	93.889	None	Procedures were corrected.
2011	2011-3	Certain expenditures that would normally be considered allowable were incurred outside the grant funding period	93.889	$19,500	Procedures were corrected.
2011	2011-4	Reported expenditures were based on budgeted salary expenditures instead of actual expenditures. This did not result in unsubstantiated expenses as the actual salaries were higher than the budget, but inaccurate information was reported to the granting agency.	93.709, 93.086, 93.918, 93.224	None	Procedures were corrected.
2011	2011-5	Certain allowable expenditures were incurred and properly reported to the granting agency in fiscal year 2011 but were not included in the Consolidated Schedule of Expenditures of Federal Awards. Amounts were initially reported on the fiscal year 2012 Consolidated Schedule of Expenditures of Federal Awards; however, such amounts have been correctly removed from the 2012 expenditures.	93.703	None	Procedures were corrected.